Risky Business in Sub-Saharan Africa?

A Political Risk Management Analysis of SN Power AfriCA in Zambia, South Africa & Mozambique

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Abstract

A political risk analysis is an approach to address political risks in a systematic way. This is essential for any company seeking to invest in developing countries in order to reduce the uncertainty related to investments.

The objective of this research study was to conduct a political risk analysis of SN Power AfriCA (SNPA) in the sub-Saharan region. The aim was to discuss the conditions that enable SNPA to mitigate their political risks in Zambia, South Africa and Mozambique all perceived as high-risk destinations. This was done through a systematic analysis: First by identifying the relevant risks, thereafter assessing the risks, and analyzing the company capabilities of SNPA, followed by a measurement of the risks. This constituted the basis for analyzing whether the company capabilities in conjunction with the proposed risk mitigation measures had the potential to mitigate the high-risks of these countries. As such, this thesis aimed for theory development, as political risk management analysis on hydropower companies in sub-Saharan Africa has not been conducted academically before.

The findings indicate that there are certain conditions that enable SN Power AfriCA to manage its high political risks in Zambia, South Africa and Mozambique, and that the ability to mitigate risks depend on the company's capabilities as well as the various risk mitigation measures proposed in this study, such as the company's position in the world industry, the backing from multilateral financial institutions, risk sharing and transfer, strategic relationships and political risk policies. However, as company capabilities mainly cover the relation between the company and host governments, they are of limited utility to be risk mitigating since political risks in these countries mainly are local. The findings indicate that despite of the notion that African countries are high-risk destinations, investments in the continent are possible. This is valid, at least for hydropower companies sharing the same characteristics as SNPA, which invest in countries with the same contextual attributes as Zambia, South Africa and Mozambique.

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The writing of this thesis has at times been a challenging process. Nevertheless, it has been a great learning experience as it has allowed me to obtain insight and knowledge on my topic of interest; namely renewable energy investments in the African continent to meet its crucial energy demand. This thesis could not have been completed without the backing and encouragement from those I wish to thank.

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All remaining errors are my sole responsibility.

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Cindy Patricia Robles

List of Abbreviations

ANC	African National Congress
BEE	Black Economic Empowerment
BERI	Business Environment Risk Intelligence
COSATU	The Congress of South African Trade Union
CSR	Corporate Social Responsibility
EIA	Environmental Impact Assessment
EIU	The Economist Intelligence Unit
FDI	Foreign Direct Investments
HIPC	Heavily Indebted Poor Countries
IFC	International Finance Corporation
IMF	International Monetary Fund
MDRI	Multilateral Debt Relief Initiative
MIGA	Multilateral Investment Guarantee Agency
MMD	Movement for Multiparty Democracy
NGOs	Non-Governmental Organizations
PRA	Political Risk Analysis
SACP	South African Communist Party
SADC	Southern African Development Community
SAPP	Southern African Power Pool
SIA	Social Impact Assessment
SNPA	SN Power AfriCA
TBL	Triple Bottom Line

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1.0 INTRODUCTION

1.1 General Introduction

Worldwide demand for energy is estimated to increase significantly over the coming decades. Findings further prove that this demand will be particularly pressing in developing countries. In comparison with other parts of the world, energy deprivation and lack of access to energy is, and will remain, the most prevalent in Africa (United Nations Industrial Development (UNIDO) 2007:1). It is therefore a paradox that the African continent is in fact endowed with unexploited hydropower resources with the potential to meet the continent's critical energy demand. The hydropower potential is to such an extent, that it has the prospective of meeting the crucial energy needs for all of Africa. In spite of this, the hydropower sector has only been harnessed on a small scale, leaving Africa to be the continent with the least exploited hydropower resources in the world (United Nations Water (UN Water) 2008:3,7). In order to meet Africa's energy demand it is essential to exploit the energy resources the continent is endowed with. In relation to this, African leaders have come to understand the role that renewable energy and above all– hydropower, can play for the economic development of Africa. A number of African countries are in fact characterizing hydropower as the backbone for further social and economic development in their respective countries. Investments in this sector are therefore encouraged, and enormous efforts have been made to create an enabling environment for private investments by African leaders. Despite of these efforts, challenges remain in facilitating hydropower projects (Bartle 2002:1232, 1238).

One of the main reasons for this is that it has been proven difficult to attract private-sector investments in the continent. Data from investor surveys indicate that risk factors such as macroeconomic instability, investment restrictions, corruption and political instability have a negative impact on foreign direct investments (FDI) to Africa (Asiedu 2003:1). According to the investors, it is the uncertainty related to the African region that leads to a significant exposure to risk (Dupasquier & Osakwe 2003:11). While the link between FDI and political risk is not clear-cut, investors frequently rank political risk as one of their main concerns when investing abroad, making political risk an essential FDI determinant. In addition to this, political risk is often perceived as being outside business' control. Given the complexity of political risk and the notion that it is something that cannot be managed, the companies often fail to address it systematically (PwC 2006:5). Political risk analysis (PRA) is an approach in which political risk can be analyzed in a systematic way. According to Bischoff & Lambrechts (2010:61) the primary purpose of PRA is to identify and forecast political event's ability to reduce the profitability of a company. The secondary function of PRA is to suggest ways in which risk can be managed. This is important because investors put their assets at risk to achieve pre-determined objectives when they invest abroad. An analysis of political risk and risk management is therefore a precondition for successful investments (Bischoff & Lambrechts 2010:61). PRA has become more prevalent for foreign investors due to the fact that in the international economy, emerging markets are starting to dominate, and the energy supply is increasingly coming from countries regarded as political unstable. This requires a shift in companies' business practices (Bremmer & Keat 2009:vii). The prevalence of political risk can further be related to shifts in the global conditions: where globalization and the deregulations of markets are two of the main factors. As such, executives in foreign companies need to understand and assess political risk– how politics affect the markets where they wish to operate – if their business is to prosper (Bremmer & Keat 2009:vii). Subsequently, PRA should be an integral part of companies' business structures.

Nevertheless, it appears that political risk represents somewhat of a challenge for foreign investors. A survey conducted by the Multilateral Investment Guarantee Agency (MIGA) (2009:32), where investors where asked about their ability to appraise and manage political risks confirms this. 24 percent of investors considered their ability to anticipate political risk to be weak or non-existent, 29 percent regarded their aptitude to evaluate political risk strategies as weak or non-existent, and 23 percent acknowledged that their capabilities to implement risk management were poor (MIGA 2009:32). This survey suggests that a substantial amount of investors may need an approach where the assessment and management of political risk can be made. It is therefore the purpose of this study to provide a risk management analysis in which the challenges of political risk can be addressed systematically. The role that private hydropower investors can play in the context of hydropower development in Africa is an important aspect to emphasize. This is because the mobilization of sufficient capital for the investments needed in the sector is not possible without including private investors. It is therefore a necessity for commercial investors to cover parts of the costs related to hydropower developments (Norad 2007:1).

The Norwegian Investment Fund for Developing Countries (Norfund) is a key investor for Norway in the renewable energy sector in developing countries. This is mainly through its cooperation with Statkraft in the company SN Power, with hydropower-expertise and the mandate to invest in developing countries (Norad 2007:1). Their success in South-America and Asia is an indication that it is possible to succeed in the hydropower sector in developing countries despite of challenging surroundings. SN Power AfriCA (SNPA) is a subsidiary of this company and was established to invest in Central America and Africa (SN Power 2010a). In January 2010, two Norwegian energy companies - BKK and TrønderEnergi, joined SN Power and Norfund as owners of SNPA with an ownership stake of 39% (SN Power 2009:34). At present, SNPA is exploring investment opportunities in Africa and more specifically in Zambia, South Africa and Mozambique, making the company a highly relevant case to study, as the company is about to enter the African hydropower market.

A risk management analysis of political risk can help foreign companies to protect their investments by reducing the uncertainties related to political risks and improve their business performance by an active risk response. This requires leaving behind the perceptions of the continent, and to integrate political risk management into a systematic process in their business conductance (PwC 2006:2). It is this study's assumption that by establishing a systematic approach to political risk management, it will enable foreign companies to assess the conditions that can mitigate political risks, so that hydropower companies like SNPA can drive improvements in business performance as well as to add value to the host countries where they are involved.

1.2 Research Question and Research Design

The objective of this research study is to conduct a PRA for SNPA in the sub-Saharan region. Because systematic analyses of political risks, especially for the hydropower sector do not figure prominently in the literature, the objective of this study is to develop an analytical approach to assess SNPA's political risks in Zambia, South Africa and Mozambique, where the relevant risks will be identified, assessed and measured. How SNPA can respond to these risks will be assessed through analyzing the company's capabilities as well as various risk mitigation measures. Basically, the objective is to discuss the conditions that enable SNPA to manage its political risks in (perceived) high-risk destinations such as Zambia, South Africa and Mozambique. More specifically, the research question is:

What are the conditions that enable SNPA to manage the high-political risks in Zambia, South Africa and Mozambique?

To answer the research question, a political risk management analysis will be conducted to provide some indications on the conditions that enable SNPA to manage its political risks, adapted to the African hydropower business climate.

The systematic approach of risk management in this analysis will consist of three main stages: risk identification: (ii) risk assessment: and (iii) risk response, where company capabilities and risk mitigation measures form the basis of this stage. The process of risk management in this analysis will begin with the analysis of SNPA's company capabilities, which have the potential to influence the company's political risks. Moreover, the macro (country-specific) and micro risk (industry-specific) factors associated with hydropower investments in Zambia, South Africa and Mozambique will be measured based on the potential impact and probability of the risk. From this, the political risks considered as high for SNPA will be derived for further analysis. This is followed by an assessment of which of the risk mitigation measures identified in the academic literature can mitigate the high-risks in these countries in conjunction with the company's capabilities. Finally an evaluation of the company capabilities' and the risk mitigation measures' implications will be presented. The research model that will structure the research question is:

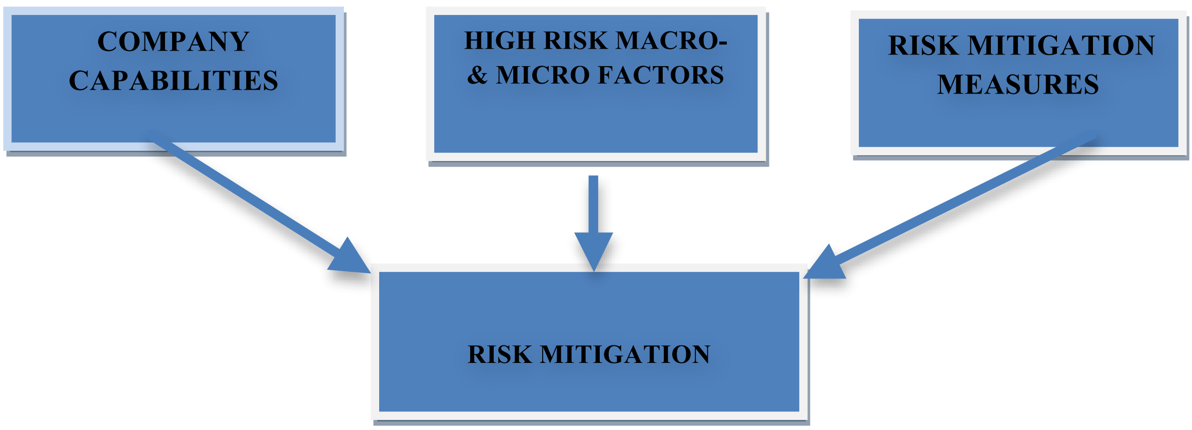

Figure 1: Research Model

1.3 Justification for the Research Question

According to King, Keohane & Verba (1994:15) a social science study should satisfy two criteria: *"First a research project should pose a question that is important in the real world"* and *"second, a research project should make a specific contribution to an identifiable scholarly literature by increasing our collective ability to construct verified scientific explanations of some aspects of the world"* (King et.al 1994:15).

The study of political risk management for hydropower companies in Africa is important in the real world primarily for two reasons: Firstly, Africa needs clean energy in order to meet the continent's developmental goals. Secondly, it needs to attract FDI for the same purpose. SNPA is therefore a company that can provide both, clean energy through FDI. When it comes to the former, there has been a growing recognition in the international debate on development, that access to clean energy is one of the most crucial factors to combat poverty and an essential basis for economic growth. The access to energy for developing countries is not only a goal in itself, but also a means of achieving sustainable development (Norad 2007:1). Today, more than 80% of the world's energy use is based on fossil energy, consequently leading to large greenhouse gas emissions. A way to mitigate the climate changes is to reduce the world's energy dependence on fossil fuels through a redirection towards renewable energy. Particularly crucial is the demand/supply of energy in Africa where more than 500 million people lack access to electricity and the high oil prices are having severe macroeconomic consequences for some of the countries. The level of access to electricity in the African countries is considerably lower in comparison to other developing countries. Over 90% of the African population still relies on traditional biomass energy sources for cooking and heating (UN Water 2008:3, 7). In addition, droughts - which serve to reduce the production of renewable energy – and the poor maintenance of transmission and distribution grids, characterize large parts of the African continent. These factors constitute a significant challenge, especially for hydropower companies, and are exacerbated by the continent's widespread poverty, rapid population growth, and poor governance (Norad 2007:1). The combination of these factors has made Africa one of the most vulnerable continents with regards to climate change, and the recognition of this highlights the importance of attracting FDI in renewable energy to the continent.

Critics of FDI argue that the link between FDI and development is not as straightforward as FDI proponents argue (Tandon 2004). Until recently, African leaders did not embrace FDI as an essential component of economic development. This was reflected by a fear that it could lead to loss of political sovereignty, bankruptcy of domestic firms due to heightened competition, and acceleration of environmental degradation (Dupasquier & Osakwe 2003:4). However, one can also find research supportive of FDI in developing countries. According to Dupasquier & Osakwe (2003:4) FDI's potential benefits in a host country include employment generation and growth, a supplement to domestic savings, integration in the global economy, skilled human capital, transfer of modern technology and enhanced efficiency. Nevertheless, the literature does present a broader consensus concerning the link between energy and development and in particular renewable energy. Several research studies have emphasized the strong link between energy consumption and economic growth because *"access to modern energy services directly contributes to economic growth and poverty reduction through the creation of income generating activities"* (UN Water

2008:4). Even though there has been a wave of public opposition to hydropower, those that are planned, constructed and operated with high environmental and social standards, have a major role to play in future energy supply of Africa, and the rest of the world (Bartle 2002:1238).

With regards to the second criteria, this research study aims to make a specific contribution to the social science on political risk as a research gap has been identified: There is no academic research on political risks for hydropower investments in sub-Saharan Africa. The objective is also practical; to develop an analytical approach that might produce valid inferences about the specific political risks for SNPA in Africa, and the risk management of these, through the company's ability to influence political risk as well as proposed risk mitigation measures. As such, this thesis will contribute to theory development.

Most of the western businesses are still not aware of the investment opportunities the African region offers. This is due to the fact that the continent on an aggregate level still is a fairly small economy in comparison to the rest of the world (Mc Kinsey 2010:62). Africa's economy with very few exceptions, used to be too badly run for any viable opportunities for investors to take place. This is about to change. According to Mc Kinsey (2010:61), one can now say that Africa is on the move. Investors blinded by the perception of the African continent as a high political risk region and therefore not attractive when it comes to investments may be missing a massive business opportunity if they fail to pay attention to the new changes in the continent. An analysis of investment opportunities and political risk in the region is therefore an attracting field to acquire knowledge about. Lambrechts (2010) has argued that what is keeping foreign investors away from Africa is not risk but rather uncertainty, and the only way to find out whether there is an actual risk in Africa is to observe and measure the potential threats that can cause political risks, in order to implement suitable capabilities and risk mitigation measures. This can be done through a political risk management analysis. The perception of Africa as a high-risk continent is partly due to the interdependence of African economies and the globalization of the world economy, which makes economic and political risks highly contagious. This interdependence affects investor's assessment of the actual risk in individual countries (Dupasquier & Osakwe 2003:14). Because of this imperfect information, the outbreak or occurrence of risk in one country is associated with the likelihood of this happening with other countries in the region, and consequently there is no differentiation between the countries in Africa. This is known as statistical discrimination, and implies that the outbreak of political stability in one country will diminish the probability of foreign investment of another country in the region (Dupasquier & Osakwe 2003:15). There are undoubtedly political factors in the African context that can be considered as high risk for foreign investors. Nevertheless, one of the main assumptions in this study is that the high political risks in Zambia, South Africa and Mozambique can be managed, through a combination of SNPA's company capabilities as well as with appropriate risk mitigation measures. Hence, this study will make a specific contribution to social science through an exploratory case study. King et. al's (1994:15) two criteria's for a research project are therefore considered as met.

1.4 Structure of the Research Study

The structure of the research study consists of seven chapters outlined below:

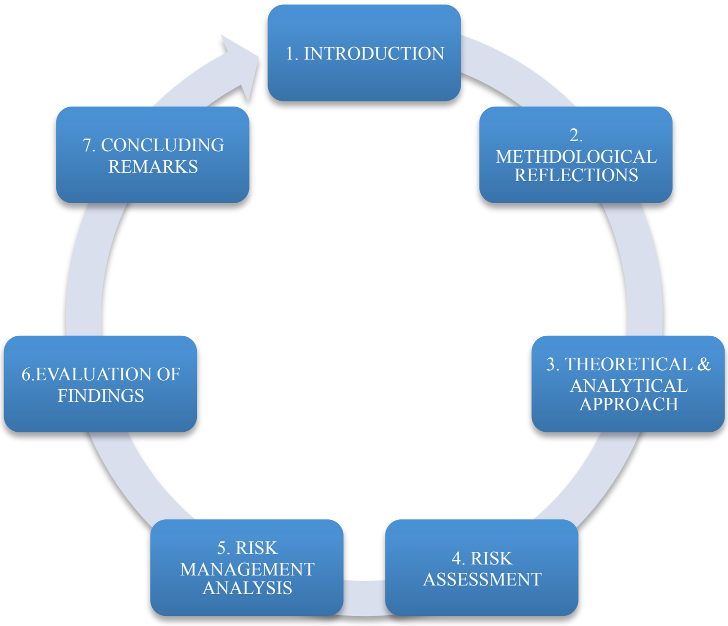

Figure 2: Structure of the Research Study

The focus of chapter 1 has been to give a general introduction of the study, followed by the research question and the research design, to provide a more systematic orientation on the course of the study. Finally a justification for the research question was given to present the relevance as well as the objective of this thesis.

Chapter 2 explains the methodological reflections concerning this study. First, the research method, the case, and research objective will be presented. Second, the implications of forecasting political risks will be introduced, before the data collection and reliability considerations are presented. Finally, a discussion of validity will take place.

Chapter 3 will present the theoretical approach of PRA consisting of an introduction of the theoretical discipline, followed by a literature review introducing the different dimensions related to political risk. Afterwards, the different concepts of political risk management namely company capabilities, risk measurement, the analytical framework of political risk, risk response and risk mitigation measures, will be presented, which will be the approach specifically developed for the study, and thus contribute to theory development.

Chapter 4 will provide the contextual dimensions of Zambia, South Africa and Mozambique. Furthermore, it will present the risk assessment consisting of the risk factors that were identified in chapter 2. This chapter will lay the basis for measurement of the political risk levels for SNPA in chapter 5. In this chapter the countries will be assessed individually.

Chapter 5 is devoted to a political risk management analysis. Here, an analysis of SNPA's capabilities will be given as they can mitigate the high political risks, followed by a risk measurement of the risk factors with the purpose to extract those factors deemed as high-risk for further analysis on how to mitigate them. Moreover, an assessment of which of the risk mitigation measures addresses the different risks in conjunction with the company's capabilities will be provided. In this chapter the countries will be analyzed as one entity, as it is the specific risks, capabilities and risk mitigation measures that will be the main focus for the analysis.

Chapter 6 will provide an evaluation of the findings where SNPAs capabilities as well as an evaluation of the risk mitigation measures in the context of the high-risks in Zambia, South Africa and Mozambique will take place, in addition to a summary of the main findings.

Chapter 7 will conclude the study with a summary of the thesis, and by assessing the theoretical, methodological and practical implications of the study. It will also discuss whether the study was able to answer the research question, provide recommendations for further research, and give an overall concluding remark by reviewing all of the main findings and point to the way forward.

2.0 METHODOLOGICAL REFLECTIONS

2.1 Chapter Introduction

"The methodology tells us how to analyze political risks. It is the key to structuring our thoughts, directing us toward important information, and organizing our procedures. The finished analysis is a product of the methodology. In a sense, methodology is our quality control: it ensures similarity in procedures and comparability of results". (Lax 1983:120).

A comprehensive management of political risk requires an understanding of which methods that are most suitable for the political environment one is studying, and an acknowledgement of the fact that the analyst's research style can produce biased results (Bremmer & Keat 2009:11). The objective of this chapter is to present the methodological reflections that were made throughout the course of this study. As such, the method, the implications of forecasting political risk, data collection and reliability, and validity will be discussed.

2.2 Qualitative Case Study

Since there is no academic research on political risk for hydropower companies in sub-Saharan Africa, the research study will be carried out as an inductive and explorative qualitative case study. Inductive because it is based on the assumption that political risk management for hydropower companies might reduce the high-risks encountered in sub-Saharan Africa and more specifically in Zambia, South Africa and Mozambique. The research question is therefore founded on assumptions, based on observations where the objective is to obtain more general notions about a phenomenon (Hellevik 2003:83). Furthermore, it is explorative as there has not been provided any studies of political risk management for hydropower companies in Africa. Hence it is difficult to say something about the relationship of the variables chosen, and their impact on the independent variable, namely risk mitigation. A case study thus becomes the most viable method to establish the relationship and mechanisms of the variables. In this sense, this study can contribute to theory development.

2.2.1 The Case of SNPA in Zambia, Mozambique & South Africa

The selection of case did not prove difficult, as SNPA is the only hydropower company in Norway with the mandate to invest in sub-Saharan Africa. The aim however, is an industry-specific analysis where the findings can be applied to foreign hydropower investors sharing the same characteristics and political capabilities as SNPA. The most important characteristic is that the company is a state-owned entity, which invests in emerging markets, and thus is set up to take a high risk in the first place. In addition, to be applied in other African countries than in Zambia, South Africa and Mozambique, it is essential that the countries share the common features of the political risks faced in these countries. The analytical framework in the theoretical chapter will thus be developed out of the notion that are certain characteristics in the African continent which can be considered as common features of Africa. Hence, it is possible for this thesis to generalize to that specific class. The research problem must further be refined conceptually, geographically and temporally (Fouche 2003:4):

- **Conceptual demarcation:** The analysis will be confined to a PRA, excluding economic factors deemed essential for a country risk analysis. Moreover, it will focus on the high political risks for foreign hydropower companies in sub-Saharan Africa and how they can be managed through company capabilities and risk mitigation measures. The focus on high-risks does not indicate that low and medium risks should not be taken into consideration in companies' risk management. However, it is the high risks factors that are the most consequential for foreign companies in terms of both impact and probability.
- **Geographic demarcation:** The study will be confined to Zambia, Mozambique and South Africa. However, as sub-Saharan Africa have many common political risk factors, it is anticipated that it can be applied in other African countries. A contingent generalization is therefore the aim, and will be further elaborated on. The case selection was based on the political and business climate in sub-Saharan Africa, in addition to the location of hydropower resources. Zambia, South Africa and Mozambique have abundance of hydropower resources. Furthermore, the decision to select countries from the Southern African region is based on the fact that members of the regional cooperation Southern African Development Community (SADC) are currently working to implement a common market with a the Southern African Power Pool (SAPP), which was recently created with the aim of providing reliable and affordable electricity supply to all of the member countries (Norad 2009:109-111). It is therefore believed that this common market will be of strategic interest for potential hydropower investors in the future, as this will create investment opportunities for hydropower development. Additionally, Zambia, South Africa and Mozambique are the countries that SNPA has selected as the company's investment destinations based on the same argumentation as why the countries are chosen for the purpose of this thesis.
- **Temporal demarcation:** It is the recent and future political context that can cause political risk for SNPA in Zambia, South Africa and Mozambique. However, a short review of the political history of the countries should also be included in order to understand the political context that hydropower companies will operate in.

2.2.2. Theory Development

PRA is according to Lax (1983:111) moving towards theory building, where analysts are specifying the area of study through systematic approaches. Although PRA falls short on theory, systematic approaches enable and invite comparisons between countries. The approach provided in this thesis can be considered as an intermediate step in creating a theory on political risks hydropower investments in Africa, notably with the same characteristics as the subjects for this thesis, by developing explanations of enabling conditions to mitigate risks. The aim of the research study is to make a contingent generalization for hydropower companies risk management when investing in African countries. According to George & Bennett (2005:112-113) one can generalize from cases by treating them as members of a class or a type of phenomenon. SNPA is a member of a class – namely hydropower companies (with similar characteristics) and so are Zambia, South Africa and Mozambique as case studies of the investment climate in African countries.

This thesis' contribution to the development of theory is based on the fact that the literature on political risk has yet to formulate theories of foreign hydropower investments, and especially with regards to the sub-Saharan continent. It is therefore assumed that this analysis can shed light on an understated subject, as the overarching object is to gain insight on how to mitigate political risks so hydropower investors can reduce the uncertainty that characterizes the African continent. Hence this is a preliminary study on a relatively untested academic field (George & Bennett 2005:75).

2.3 Forecasting of Political Risk – A Methodological Concern?

One of the most important tasks for a PRA is to forecast. PRA does not result from prediction, but rather on forecast based on probability (Hough 2008:4). Certain aspects of PRA inhibit the possibility of prediction. Different risk factors may be used in a model and with that there can be different outcomes (Brink 2004:27). Prediction is more definite, while forecasting involves a probability that something may occur, and is based on rationality, empirical evidence, scientific theory and systematic information gathering. Still, accurate forecasts are difficult to make because of the political systems unpredictability. Political risk forecasting is essential for investments in developing countries. The *"go"* and the *"no go"* are often based with forecasting as the principal driver (Brink 2004:28). Even though a differentiation between predictions and forecasting has taken place, one should not have the assumption that everything can be forecasted. Frequently forecasts end up as *"…unselfconscious, historical-philosophical assumptions about the course of the world"* (Frei and Ruloff 1988:17). This implication must therefore be taken into consideration when conducting a political risk management analysis.

2.4 Data Collection & Reliability

2.4.1 Primary and Secondary Sources

For the purpose of this study a range of authors from various backgrounds will be used as reference. In order to obtain relevant information on Zambia, South Africa and Mozambique, books, journals, news, articles, websites, and especially websites related to risk analysis and country profiles have been used, in addition to reports, working papers, and other documents from different research institutions, non-governmental organizations (NGOs) and business. To secure the reliability of the sources provided, cross-referencing will be applied at all times. Furthermore, it is of importance to note that many of the reports, documents and general primary sources can have their own objectives and agendas, released to fit the political and personal goals of those controlling the release (George & Bennett 2005:100). It is therefore essential for the reliability of the study to use a variety of sources to secure objectivity and accuracy, and to ask what purposes the different documents was designed to serve at all times (George & Bennett 2005:199). Data triangulation is thus applied throughout the thesis.

During the research period I experienced that it was difficult to obtain relevant and new information with regard to the political- and business environment in Zambia, South Africa and Mozambique, and especially academic literature. Consequently, not all of the data gathered presents the most recent information about the countries. This could have some implications with regards to the measurement of the risk level in the countries, as the risk exposure might have changed over time. Furthermore I have tried to use data and sources provided from African authors as well as from other developing countries to enhance the context-specificity[1] and provide a better understanding of what it requires to conduct business in environments that are totally different from the countries the investments usually stems from, as a contextual dimension to understand risks is a prerequisite to manage it.

2.4.2 Interviews with Key Informants

The interviews that took place with two of SNPA's employees were mainly to obtain relevant information about the company that could not be obtained elsewhere. As I work for the company I wanted to keep a critical distance to the research study, for this reason, I wanted to delimit the interviews to not compromise the reliability of the study. Since the study is not of

[1] Context-specificity refers to *"the specific domain to which a systematized concept is applied"* (Adcock & Collier 2001:535).

a normative nature, questions related to how the company is conducting and should conduct their business was left out of the interview to avoid an eschewed analysis. At the same time I wanted to avoid questions related to the company's actual activities, since my employment in the company could lead me to shedding light on the company in a more positive way than others not working there. Hence I wanted to base my analysis on primary and secondary data. However, at the same time I wanted to take advantage of the opportunity to get access to key informants to gain a better insight of the company's capabilities. The key informants were given the opportunity to read the texts with their comments to ensure that they had been cited correctly, and the interview guide is available in the appendix to enhance the reliability and transparency of the study, as well as for the purpose of replication.

Due to time and resource constraints I did not have the opportunity to go on a field trip in Zambia, South Africa and Mozambique, which could have enhanced both the validity and reliability of this analysis, and maybe providing me with other insights. Nevertheless, I have attempted to balance this through applying method-triangulation.

2.5 Validity

2.5.1 Construct Validity

To secure construct validity (Yin 2009:40), a reliance of credible sources to operationalize central concepts related to political risk such as uncertainty, political instability, micro and macro risks, risk outcomes, company capabilities, risk management risk measurement (identification and assessment), risk response and risk mitigation measures, will be applied for the purpose of this thesis. According to Adcock and Collier (2001:532), when conceptualizing one must choose from a variety of background concepts (a diversity of meanings associated with a given concept) in order to get to a more systematized concept, which means a more specific formulation of a concept. The way to get from a background concept to a systematized one is through reasoning about the former. By reasoning on the various concepts related to political risk, a systematized concept will derive from it. A conceptualization of key concepts within the political risk discipline is therefore more than providing a definition of the terms; it is also a clarification of how concepts differ from other concepts (Brink 2004:14). This will be the main task for the literature review, which will assess the different dimensions of political risk.

One of the most important methodological challenges related to construct validity in this study is the fact that there is no consensus on the political risk concepts among political risk analysts and academics. For this reason this research study will use a significant amount of time to get to a conceptualization with regard to the concepts to ensure construct validity. A study of political risk is a study about the political environment in host countries. However, there appears to be no consensus in defining what the political environment is. Yet, to see the political environment as a whole is essential in a PRA. The separation of political and economic risk for instance, is at times difficult to make. Government decisions are always political, but the decision-making is often heavily influenced by economics (Robock 1971:8). In an assessment one will have to break the external environment down for analytic purposes, but always note that it does not necessarily reflect the realities of the world.

2.5.2 Measurement Validity

A complex political environment is one of the main reasons that PRA can be subject to methodological challenges. For the research purpose it is not possible to include all the factors that can create political risks for foreign companies when investing abroad. The fact that the analyst has to select the risk factors deemed relevant, raise the concern of subjectivity. Hence, one should always be aware of biases and eschewed findings. One often assumes that indicators are objective and therefore measureable, but this objectivity should be assessed properly as indicators will always rest on assumptions. Subsequently, it is essential to not interpret observed signs as the reality (Brink 2004:27). A specific example of this is the way the high-risks will be rated in the study. Even though I will base my ratings on an impact/probability chart, the ratings will ultimately be based on my subjective interpretation of the risk levels. Furthermore, contextual specificity is also a fundamental concern that arises, as I have chosen to analyze the level of risk for Zambia, South Africa and Mozambique jointly. Because there are differences in contexts, this can potentially threaten the validity of the measurement (Adcock & Collier 2001: 534). However, it is SNPA that is the main focus of this study, and my choice to analyze the countries jointly is based on this. Albeit the aim is a contingent generalization I must be aware of the fact that an analytical tool that works in one circumstance, may not work in another despite of aiming for a contingent generalization (Bremmer and Keat 2009:197). By taking this into account the chances of getting a valid analysis will improve.

Moreover, the quantity of information and how to process that information are also important methodological concerns (Frei and Ruloff: 1988:14-15), and must be taken into consideration in a PRA. To obtain information is not always the implication, but rather to obtain relevant information and interpret them correctly (Brink 2004:26). The fact that

Zambia, South Africa and Mozambique to a large extent have the same political context minimizes the chances of getting unreliable and invalid results from the analysis. Nevertheless, it is necessary to select what is important and relevant out of the massive amount of information, and to separate this from the unimportant and irrelevant information (Frei & Ruloff 1988:14).

2.5.3 Internal & External Validity

Internal validity is about the establishment of a causal relationship and is thus a concern for my study since it is exploratory (Yin 2009:40). Risk factors are identified and assessed according to the probability and impact they have of creating risk outcomes that will affect SNPA's investment in Zambia, South Africa and Mozambique, and it is assumed that the independent variables, company capabilities, risk factors and risk mitigation measures can lead to risk mitigation, which is the dependent variable of this study. Hence, the establishment of a causal relationship is essential for the purpose of analysis. By applying the case study method it is easier to establish the veracity of a causal relationship. Subsequently, it is the most suitable approach to answer the research question.

Case studies are generally weak with respect to external validity i.e. generalizations (Gerring 2007:43). However, as stated previously the purpose is to make a contingent generalization, meaning that the members of the class must be specified thoroughly, as I already have attempted to. The establishment of external validity is only aimed for in this regard.

3.0 THEORETICAL & ANALYTICAL APPROACH

3.1 Chapter Introduction

This chapter's aim is to introduce the theory and central concepts related to PRA. Firstly, the historical background of PRA will be presented, followed by the underlying logic of PRA; decision-making and problem-solving theory. Afterwards, a literature review with the aim of arriving at a conceptualization of political risk that will be applied throughout the thesis will be introduced, before the theory of political risk management is elaborated, consisting of company capabilities, risk measurement and risk response with the corresponding risk mitigation measures, which is developed for the purpose to answer the research question.

3.2 The Theoretical Discipline of PRA

The academic field of political risk evolved in the 1960s- 1970s. The revolution and expropriation in Cuba, the revolution in Iran and Soviet's invasion of Afghanistan, were all events that made foreign investors aware of other types of risk than commercial and economic risks (Jakobsen 2004:44). It was not until the 1970s that it became acknowledged as an academic field as a result of the 1973-oil crisis (Brink 2004:3). The multi-disciplined research on PRA lost its momentum toward the end of the Cold War, with the fall of communism. PRA was again triggered by the 9/11 attacks in the US (Nodland 2006:18-19), indicating that business can never be insulated from social or political events. The contrast to earlier in today's reality, the escalating pressure and the growing complexity of the political forces, which can affect company's risks (Bonini, Mendonca & Oppenheim 2006:22).

It has been stated *"Political risk strides across numerous disciplines"* (Jarvis 2008:2). The reason for this is that the literature on political risk is influenced by events in the international political economy, and as a consequence, theory, conceptualization, and methods mapping the academic field have been episodic (Jarvis 2008:1). Hence, the lineage of theory, models and conceptual frameworks of analysis are difficult to identify. Political risk is therefore best approached as a praxis driven ontology that should be defined in relation to its practical utility (Jarvis 2008:1). Most political risk analyses are therefore conducted for a practical reason. The increasing volumes of trans-border trade, production and investment has driven the demand for PRA, and the vast bulk of literature on political risk is invoked by host countries political environment and how it impact on foreign business. Its practical utility is to provide decision-makers in companies to identify, manage and mitigate uncertainties and threats to investments (Nodland 2006:9). Political risk is further studied by a number of disciplines such as political science, development studies, international relations, international business, economics and economic geography. As such, the academic discipline is still regarded as unconsolidated (Jarvis 2008:2).

3.3 A Theoretical Grounding: Decision-Making & Problem-Solving Theory

In order to comprehend PRA' relevance in the decision-making of companies, an explanation of the underlying theory of political risk is essential. There are two theories that are considered as the theoretical groundings of PRA, namely decision-making- and problem-solving theory. The relationship between the two is described as symbiotic and they are regarded as practical theories (Brink 2004:31). For business, a PRA is the first step in the decision making process on political risk for foreign investment. A PRA focuses on challenges regarding decision-making, in addition to the implementation of actions to mitigate political risk. In problem solving, the potential solutions require a systematic ordering of ideas that can be applied in the decision-making process of foreign investment companies.

Subsequently, PRA is about choices and the conditions of uncertainty and risk for companies investing abroad. The problem of decision-making can be solved by the selection of appropriate actions to manage the potential risks. The core of these theories is the notion of decision makers as rational agents whose aim is to minimize risk and uncertainty when they are considering an investment (Brink 2004:31). Consequently this will be the underlying theoretical grounding of the study.

3.4 Literature Review: Dimensions of Political Risk

3.4.1 Risk & Uncertainty

A differentiation between the terms risk and uncertainty is essential to make solid investment decisions (Brink 2004:3). In the literature there are three basic types of risk that have to be identified when conceptualizing political risk. According to Verzberger (1998:18), there is real risk, an objective risk which deals with the actual consequences of a behavior or a situation; perceived risk, which is the subjective and socially constructed risk experienced differently by those affected by it; and acceptable risk, the risk a decision maker is willing to undertake in order to pursue certain goals. However, there are some implications of these types of risks for a PRA. With real risk it is difficult to obtain a standard of measurement, which was discussed in the previous chapter. Perceived risk has its implications for an obvious reason; often it does not correspond with objective and actual risk and is therefore subject to misinterpretation, misconception or lack of information. Lastly, acceptable risk does not have to correspond with neither of the two other risks since it changes whenever a decision makers goals changes (Hough 2008:2).

According to Hough (2008:3-4), the distinction between risk and uncertainty can in fact be seen as an indication of two levels of uncertainty; instances where outcome probabilities are known, also called structured uncertainty, and instances where these probabilities are unknown called unstructured uncertainty. Political risk should therefore be applied where the probabilities of outcomes are uncertain and unknown. According to Jakobsen (2004:32) risk is objective while uncertainty is subjective. Hough (2008:14) once stated, *"Actual risk in Africa, although real, is at times less than perceptions of risk"*. This statement indicates how important it is to assess objective risk, rather than subjective risk, to avoid an equation. Hence, this will be the focus of this study.

3.4.2 Political Risk & Political Instability

Political risk and political instability has often been treated as synonyms. The reason for this is that political instability is cited as the biggest impediment to foreign investment flows (Robock 1971:15). The nature of the relationship between the host country's political environment and the investing company's business environment is an uncertain relationship stemming from the difficulties to assess the outcomes from changes in the political environment and how it will affect the business environment (Brink 2004:43). According to Kobrin (1979:114) two questions need to be answered to establish the relationship between the two concepts. The first is; what is the probability of a political event occurring; and secondly, what is the probability that it will affect the company? Instability needs not cause political risk for a company because changes may affect companies differently (Kobrin 1979:114).

What are the implications of regarding these two concepts as synonyms? The most significant consequence is that companies may miss viable business opportunities just because of an overestimation of the actual political risk. This can happen when decision makers have limited knowledge about the host country's political patterns, or because they apply ethnocentric standards and try to juxtapose political patterns in a host country with the patterns from the home country. When assessing political instability it is deemed essential to be sensitive about the fact that the criteria for political instability may, and usually do vary from country to country (Robock 1971:15). This can be exemplified with how misleading it is to interpret frequent changes in governments as political instability, while in fact frequent changes in leadership on the top need not constitute instability for the rest of the government's institutions. To a great extent, political instability can be regarded as a culturally specific phenomenon because at times it can be difficult to evaluate whether political events pose a political risk due to the ethnocentrism naturally embedded in the human mindset (Kobrin 1978:120). Political instability therefore depends on the political setting. This can serve as an indication that political risk has to be analyzed with caution, as it is particularistic and contextual, while political stability is systemic and therefore not necessarily a risk to business (Jarvis 2008:34).

3.4.3 Micro & Macro Risk

Although all foreign companies can improve business performance by better managing political risk, not all companies should approach political risk management equally. The potential impact of risk varies with the company's international exposure, and depends on the company's industry, size and location (PwC 2006:9). This acknowledgement enables to analytically disentangle investment types and to demonstrate the extent of correlation between political events, political systems and their impact upon the different foreign investments. Kobrin (1981, in Brink 2004:38) identified two dimensions of political risk that foreign businesses may encounter when investing in a host country. The first dimension is political risk as macro risk: the general risk of the political environment in the host country. The second dimension is micro risk that affects a specific company. Frei and Ruloff (1988:3-4) discuss whether macro risk is too abstract as a concept, and questioned its utility. They came to the conclusion that micro risks most likely will affect businesses, and that the approach should be to evaluate the specific consequences to the specific company one is analyzing. However, this approach might be slightly problematic to implement due to the fact that macro and micro risk cannot easily be separated from each other.

To study macro risk alone is not a fruitful approach in corporate political risk studies because there is a difference between the general political environment and the specific business environment for a company. Robock (1971:250) defines macro risk as *"Unanticipated and politically motivated environmental changes…broadly directed at all enterprises" and micro risk as "the environmental changes… intended to affect only selected fields of business activity or foreign enterprises with specific characteristics".* Brink (2004:13), claims that these types of risk cannot be effectively shielded from the other, and that a PRA should include a micro and macro risk assessment (Brink 2004:21, 13). Thus, this will be the focus in this thesis.

3.4.4 Political Risk & FDI

The emergence of neo-liberal free-market economic policies in developing countries has created many investments opportunities for foreign investors (Comeaux & Kinsella 1994:1). The possibility of exploring new markets has therefore lead investors to approach unknown environments, characterized by a higher level of uncertainty. Along with the immense opportunities, there is also a substantial risk. According to Comeaux & Kinsella (1994:1) investments in developing countries are therefore greater than when investing in liberal and predominately Western democracies. In theory, the spread of economic liberalism should indicate that political risks are less significant than before due to governments' acceptance of FDI. Nevertheless, the reality is more complex, as political leaders have to satisfy different interests to remain in power (Bray 2003:291). The notion that only government action can create political risk does not provide a reflection of reality in relation to FDI.

"Today's political risks are not the classic risks associated with communist takeovers or post-colonial outbursts of anti-foreign sentiment. They are more subtle, arising from legal and regulatory changes, government transitions, environmental and human rights issues, currency crises and terrorism. Because these risks are subtle (often occurring at the same time as the government is declaring the country "open for business") they are often hard to manage (Ferrari & Rolfini 2008:2),

3.4.5 Conceptualization of Political Risk

The literature on political risk has according to Brewer (1981:1) been focusing on a narrow concept of political risk with emphasis on expropriation, regulations, government instability and such. A more exhaustive approach should be utilized to fully understand the concept. The most important factor in conceptualizing a term such as political risk is to make it flexible enough so that it can be applied to different contexts, yet specific enough so it will not be contested and criticized for not being clear enough. A constant awareness of the dynamics involved in political questions is the only way to secure this (Brink 2004:43).An analysis of political risk can therefore be conceptualized as:

"the analysis of the probability that factors caused or influenced by the (in)action or reactions of stakeholders within a political system to events outside or within a country, will affect investment and business climates in such a way that investors will lose money or not make as much money as they expected when the initial decision to investment was made. These factors can be of internal (from inside the host country) or external origin, and can pose macro (generic) and/or micro (specific) risks (Brink 2004:1).

In order to assess the political risks for a foreign company, Brink (2004:165) emphasize that businesses themselves can be actors of political risk. Consequently, it is not sufficient to only assess the host governments' investments climate. A conceptualization of political risk should therefore entail political risk on a country level (macro), in addition to political risk on a project level (micro), as firms are actors who can influence their business environment (Frynas & Mellahi 2003:543).

Brink's definition of political risk will be applied in this research study because (i) it views political risk in the context of a political system including other actors of risks than political leaders, (ii) differentiates between micro and micro risks, (iii) makes a distinction between internal and external political risk factors, and (iv) takes into account that companies themselves can create political risks.

3.4.6 Outcomes of Political Risk

To create a political risk for foreign business, the political environment must have the ability to affect the business environment negatively. In the political risk literature, the following outcomes of political risk are presented[2]: expropriation risk, political violence, reputational risk, breach of contract, and policy change.

Expropriation Risk: *"refers to losses due to measures taken or approved by the host government that deprive the investor of its ownership or control over its investment"* (Ferrari & Rolfini 2008:5). Expropriation can be direct through nationalization, formal transfer of title or physical seizure. It can occur through state intervention or with enjoyment of the benefits from the investment. It can also take the form of creeping/indirect expropriation. Creeping expropriation is defined as *"the act of a government squeezing a project by taxes, regulations, or changes in law",* and is becoming an important source of risk for foreign investors (Ferrari & Rolfini 2008:4). The most common form of expropriation is the latter, where investors are deprived of ownership in their investment through governmental acts (Ferrari & Rolfini 2008:7). The incentives to expropriate depend on the difference between the benefits of obtaining capital from foreign investors and the opportunity costs of an expropriation. Host governments have the incentive to expropriate to maximize their national income on a short-term. An example of creeping expropriation is to increase the taxes from companies' profits for redistribution (Ferrari & Rolfini 2008:10). Other examples are confiscation and loss of assets without compensation (Jarvis 2008:37-38).

[2] The political risk outcomes listed in this research study are not an exhaustive list of all the political risk outcomes, as it is not possible for a research study to assess all the potential risks for business. However, the selected outcomes are the ones mostly referred to in the literature on political risk. The analysis might therefore include other outcomes, dependent on the findings.

Political Violence:

"refers to losses from damage to, or the destruction and disappearance of, tangible assets and politically motivated acts of war or civil disturbance in the host country, including revolution, insurrection, coups d'état, sabotage and terrorism. It is also caused by an interruption of project operations essential to the overall financial viability and obligations to lenders" (Ferrari & Rolfini 2009:8).

Jarvis (2008:19, 25) has also included labor strikes, and general social and political unrest as indicators that can create political risk because those indicators have the potential to turn violent. The outcomes of political violence expect the obvious physical constraints that are - *"Damage to property or to human life/personnel from riots, insurrection, revolution, terrorist attacks and general civil unrest"* (Jarvis 2008:39), are loss of freedom to operate, loss of future profit and the implications for shareholder value (Jarvis 2008:37).

Reputational Damage: One of the most significant political risk outcomes that have emerged since the 1990s relates to the risk of reputational damage. This relates especially to companies operating in countries and regions associated with governance failures with a record of corruption, social unrest, human rights abuses, and low labor ethics (Bray 2003:294, 291, Bremmer & Keat 2009:180). Investments in these markets not only have the potential of creating political risks in the host country, but also in the home government in form of enormous public relations problems. Improvements in communication have made it easier for NGOs to obtain information about the activities of companies and thereby mobilize campaigns through regulatory scrutiny, boycotts and demonstrations against companies failing to comply with reasonable standards (Bray 2003:291, Bremmer & Keat 2009:180).

Breach of Contract: *"the potential losses resulting from government termination of contracts without compensation for existing investments"* (Ferrari & Rolfini 2009:8). The political risk takes place if the government or a state-owned company in the host country, does not comply with the contract or cancels (Ferrari & Rolfini 2009:8). In addition, revisions in contracts and agreements to the detriment of the foreign business can also create political risks for the operating company (Jarvis 2008:38).

Policy Change: Policy change can be an outcome of political risk in which a change in any political parameter can have ramifications for stakeholders in the affected policy area. In this case, political risk is a function of governmental activities and/or inactivity that are regarded as negative for a company's business conduct (Jarvis 2008:5). Examples of policy changes are currency inconvertibility, unfair tax laws, and production or export restrictions, restrictions on local market access and restrictions of information flows. Moreover, employment policies and locally shared ownership requirements can also create political risks for foreign companies (Jarvis 2008:19, 38).

3.5 Management of Political Risk

The theory on management of political risk has been marked by lack of a linear genealogy of theory, models and conceptual frameworks: As a consequence of risk being a multifaceted concept (Jarvis 2008:1). According to Brink (2004:148), political risk management is about the sensitivity of a foreign company's projected profitability and operation ability in a host country, to changes in the investment climate. In addition the nature of risk depend upon the project and the host country's investment climate associated with the project.

Risk management can be divided into two categories depending on what the company objectives are; risk management with a sole function of financial performance and risk management with a focus on financial, social and environmental performance. In recent years, the practice of risk management has, by some corporations and academics become closely aligned with principles of sustainability (Knott & Fox 2010:38). Today, the political role of private enterprises is becoming more important due to economic and moral issues such as triple bottom lining; socially and environmentally responsible investment; protection of the physical environment; investment in human capital etc. (Brink 2004:152).

In hydropower investments, there is a conviction that when developed properly, hydropower projects can provide economic, social and environmental benefits (The World Bank Group 2007:25). Corporate sustainability risk management can thus be defined as "*a business approach that creates long-term shareholder value by embracing opportunities and managing risks derived from economic, environmental and social developments*" (Yilmaz & Flouris 2009:163).

Independent of what the company objectives are, and what kind of risk management approach a company will undertake, risk management consists of three main steps; a) risk identification; b) risk measurement; and c) risk response (Wang Dulaimi & Aguria 2004:238). The process of risk management starts with the initial identification of the relevant and potential risks associated with the investment project. This part of a PRA is of considerable importance *"...since the process of risk analysis and response management may only be performed on identified and potential risks"* (Wang et. al 2004:238). Moreover, risk assessment of the political risk factors is the intermediate process between risk identification and risk management and integrates risk in a manner to enable evaluation of the potential impacts of the selected risk factors. According to Wang et. al (2004:238), the evaluation should in general concentrate around the risk factors with high probabilities, high financial consequences or combinations thereof deferring a substantial financial impact. Once the risks have been identified and analyzed, a suitable risk management must be adopted. Within this framework one should formulate appropriate risk management measures based on the nature and the potential consequences of the identified risks (Wang et. al 2004:238-239).

Furthermore, the capabilities of the foreign company must also be assessed in the context of risk management, as there exist corporate variables with the potential to affect the political risks of foreign companies (Lax 1983:17). An analysis of risk management should therefore include the three dimensions; company capabilities, risk measurement and risk response with risk mitigation measures, which will be further assessed in the following section.

3.5.1 Risk Management & Company Capabilities

The discipline of political risk has emphasized that the most fundamental differentiation between a foreign- and a national company is based on their social, political and economic circumstances.

> *"MNCs face an additional and unique element of risk, namely that of operating in countries with different attitudes toward political philosophies, legal systems, social attitudes toward private property, corporate responsibility and free enterprise" (Brink 2004:151).*

The business environment of a national and foreign company is therefore not the same, thus they can experience different political risks even though they are operating in the same country, and even within the same sector (Brink 2004:151).

In addition, foreign companies attract more attention than national companies by being foreign, and especially in developing countries. Foreign investors are often wielders of economic power when bargaining with host country governments (Brink 2004:151). In the literature it has been expressed that political risk is dependent on the companies' ability to influence by virtue of their capabilities. Company capabilities can thus be defined as a company's ability to successfully confront and even shape the political environment in the host country (Frynas & Mellahi 2003:544-545).

Central to this is the concept of bargaining power, which explains how foreign companies differ in their approaches to the political forces that shape their business environment, and refers to the notion that host government interventions in a company depends on the ability of the specific company to influence the host government (Moon & Lado 2000:85-86). The bargaining power of a company will primarily be a result of its industry-specific resources and capabilities. Accordingly, companies with greater bargaining power are likely to attain more favorable conditions when negotiating with the governments, and further, are less likely to face intervention from the host government after investing (Moon & Lado 2000:86-87). Lax (1983:113) has identified four key corporate variables that can affect a company's political risk in a host government:

1. The nationality of the company:
2. The position of the company in the world industry,
3. Special bargaining advantages: including technology, managerial skills, service, capital and other advantages which can influence their position and:
4. Dealings with host government: What will be the company's approach? Receptive, diplomatic and open, or unreceptive, brusque, and unyielding?

It is thus expected that these corporate variables either can mitigate or actually increase company's political risk. Hence, two different companies exposed to the same political risk in a country, may be affected in a different way as a result of their specific resources and capabilities (Frynas & Mellahi 2003:544, 558). In addition, this will depend on the specific risks the company is exposed to, as well as the risk mitigation measures applied for this purpose. This will be assessed in the next section.

3.5.2 Risk Measurement: Risk Identification & Risk Assessment

The concept of risk measurement is referred to as an estimation of the probability and impact of political risk to a foreign company (Hough, Du Plesis & Kruys 2005:13). To be able to measure political risk one has to look at the factors that create the political risk outcomes. An assessment must therefore forecast the political risk events that may materialize, and translate these events and the general political environment into *"specific managerial contingencies"* (Lax 1983:110). A systematic approach to assess the level of political risk is needed to counterbalance the subjective nature of political risk. Below is the framework on which the ratings of the political risk factors will be based[3] (Brink 2004:169):

[3] A: Political risk categorized here indicates an acceptable impact of political risk meaning that it will not be cost effective to take preventative action even though the probability of risk is high (Brink 2004:169).

PROBABILITY OF RISK	Low (Impact)	High (Impact)
High	A High Probability/ Low Impact	B High Probability/ High Impact
Low	C Low Probability/ Low Impact	D Low Probability/ High Impact

IMPACT OF RISK

Figure 3: Risk Probability and Impact Chart

Based on this chart, the political risk factors that will be given the category A are considered as medium risk, category B as high risk, and categories C and D are considered as low risks. The research study will focus on the political risk factors categorized as high risks, which are the most crucial for foreign investors.

3.5.3 Analytical Framework for the Research Study

The objective of this section is to create a political risk index adapted to the African context in order to analyze which of the company capabilities and risk mitigation measures that can manage political risk. The literature suggest that the macro factors with potential to create political risk are political stability, political effectiveness and accountability, the quality of bureaucracy and corruption, internal and external conflict, military in politics, religious tensions and socio-economic conditions, (Brink 2004:84-87), and can be supplemented by looking at existing frameworks[4]. A review of these frameworks indicates that there are certain risk factors that are represented repeatedly and can thus be extracted into a new framework for the purpose of this analysis.

B: Political risk factors in this category signify that the potential for damaging impacts are high. This type of foreign investment should only be pursued if the political risks are manageable (Brink 2004:169-170).

C: The probability and the impact of the political risk are low (Brink 2004:170).

D: Although the probability of political risk is low, the impact of the risk is high (Brink 2004:170).

[4] The Economist Intelligence Unit (EIU), The Business Environment Risk Intelligence (BERI)(Howell & Chaddick 1994), Brink's model (2004) and Jakobsen (2004). The frameworks are listed in the appendix, and are used to enhance the validity and reliability of the study.

Iroanya (2008) introduced an alternative risk assessment model for Africa after been analyzing the indicators used in the EIU and BERI framework, and acknowledged that the factors used were important but that several of them were biased towards African countries. Relevant risk factors were introduced in a model for African risk assessment, and the factors were: State legitimacy, public service, state capacity, political stability, corruption and crime, ethnic and religious bigotry, socio-economic development, population growth, law enforcement, environmental stress, regional developments and operating policies such as reconcilable goals between the company in host government. Many of the risk factors are already incorporated in the risk framework applied in this study, however, environmental stress and operating policies are not included and will be assessed as part of micro risks (Iroanya 2008:112-113). Recalling the need for context-specificity, his arguments are included to accurately assess the political risks for foreign hydropower companies in Africa. The following table shows the selected risk factors:

Table 3.5.3a: Macro Risk Factors

Political risk factors	**EIU**	**BERI**	**Brink**	**Jakobsen**
Political stability and legitimacy	**X**	**X**	**X**	**X**
Political effectiveness and Accountability	**(X)**		**X**	**X**
Internal conflict	**X**	**X**	**X**	**X**
External conflict /Negative influences of regional or other external forces	**X**	**X**	**X**	
Security risk	**X**	**X**	**X**	**X**
Socio-economic conditions	**X**	**X**	**X**	

What follows below is an elaboration of these variables. In turn, these form the basis for a construction of a political risk index for SNPA in Zambia, South Africa and Mozambique.

<u>Macro Risks</u>

Political Stability and Legitimacy: Political instability can be a signal to the investor of an increase in political risk. However, as stated, instability only affects foreign investors if it ultimately results in policy changes or government intervention against foreign companies (Jakobsen 2010:484), in addition to reputational risk and in worst-case, political violence. Legitimacy is an important risk factor to emphasize because the concept implies an unforced and positive acceptance of the state from the population (EIU in Howell & Chaddick 1994:76). The higher the level of public consent, the less is the chance for a legitimacy crises, political violence and societal uprising (Brink 2004:91). Africa has had instability and illegitimacy issues since independence. One of the biggest challenges for the continent has been political leadership with consequences such as freedom fighters turning into dictators, the looting of natural resources, politics of exclusion and deprivation (Ong'ayo 2008:2). The leadership crisis has been marked by concentration of power in single political parties, personal rule by the president, centralization of power followed by elimination of competitive elections and intolerance of dissent (Gordon 2007:59). Both the EIU and BERI model argued that authoritarianism is a political risk for foreign investors. According to Iroanya (2008:108), this is theoretically possible. However, it is important to emphasize that democracy also has the potential of causing political risk. Actions such as expropriation can be used as a means of consolidating power and redistribute wealth to satisfy the electorate. This risk factor should therefore be measured trough assessing political transfers, government stability, and policy stability. Sudden changes in policies can point towards further anticipated shifts such as contract repudiation, cancellation of licenses, whereas legitimacy issues can cause political unrest with the potential to hamper the operational environment of business (Brink 2004:84).

Political Effectiveness and Accountability: Well-functioning political institutions are essential to reduce the risks associated with large projects such as hydropower investments. Although this does not guarantee policy stability, a solid institutional framework does enhance the credibility of promises to protect investor's assets (Jakobsen 2010:485). The institutional capacity to implement policies is therefore essential for investments (World Economic Forum 2010:7). The institutional strength and quality of a country's bureaucracy have the potential to minimize revisions of existing policies when government's change, and where the bureaucracy tends to be autonomous from political pressure. As a consequence, the political risk of a country will be lower if the bureaucracy has the strength and expertise to govern without dramatically changes or interruptions in policy or other types of government services (Brink 2004:87). Africa is still haunted by historical injustices and oppressive structures as part of its history, a dimension that informs the weak institutions of the states and flawed legislative systems (Ong'ayo 2008:2-3). The indicators that will be assessed in this risk factor are: institutional effectiveness, the quality of bureaucracy, transparency and fairness, and democratic accountability (Brink 2004:84). Signs of institutional strength such as efficient distribution of resources, policy delivery and competent civil servants should also be assessed (Brink 2004:87).

Moreover, corruption drains resources from public and private projects into the pockets of officials and thus represents an additional cost to investments. Corruption remains a serious challenge in many African countries, as it is rampant in 36 out of 52 countries in the African continent according to Transparency International, and a serious challenge in 14 more. (World Economic Forum 2010:11). Companies in the resource sector are particularly vulnerable to corruption because of the large amount of capital involved, and because of their frequent and regular contact with host governments (Bray 2003:295-296). Corruption within a political system poses a threat to foreign business for several reasons: It leads to distortion of the economic and financial environment, reduces the efficiency of government and businesses through patronage over ability, and leads to an innate instability to the political processes within a country (Brink 2004:86).

Internal Conflict: Ethnic tensions are a common feature of most African political systems, and can cause divisions among the various groups in a country. It can affect foreign businesses negatively through open conflicts or through more subtle forms such as restrictions from investing in certain areas, and who to employ (Iroanya 2008:106). Yet, ethnicity in itself does not cause political risk. According to Iroanya (2008:106-107) ethnicity can in fact add to the profitability of foreign investors because they might find more skilled personnel in heterogeneous settings than in a homogenous environment. Countries with higher degrees of social cohesion are more resilient towards conflicts than countries with a low degree of cohesion. The African countries have comparatively low levels of social cohesion. The most widespread measure of this is ethno linguistic fractionalization. Nevertheless, ethnic diversity is not a conflict-trigger in itself, but where the resources are scarce, unevenly or unjustly distributed, it can be explosive (Nodland 2006:11). Political salience has to be gained, and used for a competitive purpose in power struggles to actually pose a risk (Iroanya 2008:107).

Social unrest and disorder[5] can create political risk for foreign investors because of the potential for disruption of business activities. Unemployment, declining remittances, and pressure on social programs makes the risk of civil unrest pronounced and might lead to resource nationalism. Civil unrest can lead to changes in law due to political, social and economic pressures (MIGA 2009:27, Wang et.al 2004:241). The signs to watch are increased ethnic tensions and violence, political weakness, or social and political tensions over access to food and water (World Economic Forum 2010:9, 7). Internal conflict is an indication of political violence in a country as well as its potential or actual impact on governance. Certain criteria have to be taken into consideration like whether the conflict is confined to a certain area, or attacks occur nationwide, whether movements have widespread support, or whether

[5] This aspect of political risk will be further discussed under the risk factor socio-economic conditions.

acts of violence are sporadic or sustained. A country is low risk if there is no evidence of armed opposition to the government, and where the government does not indulge in arbitrary violence. A high-risk rate would be given countries in an ongoing civil war (Bischoff 2010:36, Brink 2004:85). These tensions and divisions in society are well known predicators of political turmoil and hence a signal of an increase in political risk. Such tensions redirect government attention to their solution, restrict resources available for economic development, or may result in open conflict and destruction of property. A government may even fall account of social tension representing a threat to consistency in economic and social policy (Bischoff 2010:37).

External Conflict/Negative Influences of Regional or Other Political Forces: Armed conflict in neighboring countries has the potential of destabilizing the nation through the amount of refugees and rebel movements (Brink 2004:91). War and armed conflict applies to all regions in the world, but in Africa this seems more at risk than other continents. War has the potential to cause shortage of skilled human work force, destruction of physical infrastructure, nationalization and expropriation (Iroanya 2008:105).

This factor will be measured by monitoring the prevalence of trouble spots[6]. A measure of external conflict is also included (Brink 2004:85). It can range from conflicts like trade embargos, geo-political disputes, armed threats exchanges of fire on and across borders, foreign supported insurgency and full-scale war (Bischoff 2010:36). Even though war does not necessarily affect foreign investors, the presence of armed conflict can create risk because of the possibility of harmful interventions such as insurgents, kidnappings, sabotage etc. (Jakobsen 2010:484).

Security Risk: General and organized crime, kidnappings, hijackings, riots and sabotage and terrorism are indicators of relevance to assess in the context of security risk. However, according to Iroanya (2008:107) terrorism is not as relevant for foreign investment in Africa, and especially not religious fundamentalism. Even in countries where Islamic fundamentalism exists it is often used to achieve domestic objectives rather than to target foreign investors. However, US concerns about the role of different terrorist groups in Africa have led to an increase in their military presence since 2002, and thus might serve as an indicator of increased presence of terrorism in Africa (World Economic Forum 2010:10).

Socio-Economic Conditions: This factor attempts to measure the general public dissatisfaction with a government's policies, and performance on social delivery, as this can

[6] Trouble spots: Countries in a region with history of unrest, insecurity or continuous violence.

create political violence and potentially affect foreign investments (Brink 2004:85, Iroanya 2008:110). It is assumed that public dissatisfaction with government's policies will enhance the chances for a government to change its policies. Public dissatisfactions can possibly be to the detriment for investors if it creates a social crisis (Hough 2008:25). In addition, the growing income inequalities are a factor that might generate social unrest and violent conflicts, as African countries rank at the bottom of the United Nation's Human Poverty Index (World Economic Forum 2010:12).

Social delivery in almost every African state is poor, with high unemployment rates, poor health care delivery, unequal distribution of wealth, and serious problems of rural-urban migration, causing poverty and an increase in urban populations leading to increased competition for employment and criminal acts (Iroanya 2008: 112, 110).

Micro Risks

Infrastructure investments such as hydropower are considered as more prone to political risk than others (Frynas & Mellahi 2003:541). In 1971 Vernon (in Doh & Ramamurti 2003:340) introduced the notion that investors' bargaining power in host countries would diminish over time as a consequence of high fixed costs and the inability to transfer capital investments abroad. Once companies have committed to investments in form of establishing physical assets, the host government has greater leverage over the company and thereby the company's vulnerability increases. This is called *asset specificity* or the obsolescing bargaining (Doh & Ramamurti 2003:340). Investments in infrastructure are innately characterized by an active government role, and only a small percentage of the infrastructure in developing countries has been privatized because of the notion that these industries should be natural monopolies. Additionally, the assumption that all should have a basic right to access these services has led to the view that the government should be both producer and provider (Doh & Ramamurti 2003:340). Many natural resource projects pose a risk on their own. Subsequently, hydropower must be developed taking all of the potential risks into consideration, both the risks that the political environment can cause to the investment, in addition to their own risks (The World Bank Group 2007:27). This section will further introduce the political risk factors that are deemed relevant in the context of hydropower investments in Africa. The micro risk factors are:

Table 3.5.3b: Micro Risks

• **Human Rights**
• **Human Capital**
• **Energy Dependence**
• **Environmental Vulnerability**
• **Regulatory Framework**
• **Attitudes Toward Foreign Business**

Human Rights: In recent years, business has been regarded as one of the key social institutions that have the responsibility to uphold human rights rights (Bray 2003:295). One of the most significant political risks since the 1990s is the risk of reputational damage to companies operating in countries with records of human rights abuses. Investment can cause problems in countries where the government has been accused of human rights violations, and the development of new supplies under these circumstances may not be acceptable unless companies can satisfy potential critics; that their investment will serve a developmental purpose in the host country (Bray 2003:294). As energy supply in Africa is a development purpose, an important assumption is that companies investing in this sector should have an even stronger emphasis on upholding human rights, due to the likelihood of being targeted by local stakeholders, the government, NGOs and other international interests if not complying.

A country's human rights record also serves the objective of signifying levels of government tolerance when threatened and challenged (Brink 2004:96). Working conditions, labor rights, and dams' impact on local communities should therefore be assessed when discussing the risks of human rights for hydropower companies (Blowfield & Murray 2008:317).

Human Capital: The quality of the labor force is usually described as human capital and often refers to skills, knowledge, and health (Brink 2004:109). In addition to the already thin manpower base in the renewable sector in Africa, the high incidence of HIV/AIDS reduces the productivity due to loss in trained personnel (Economic Commission of Africa 2006:52). As such, HIV/AIDS has a destabilizing effect on labor forces, productivity, economies and profitability (Brink 2004:102). The Corporate Council on Africa has estimated that in some parts of Southern Africa, HIV/AIDS and related illnesses and death thereof have reduced the workforce by as much as 20% with corresponding decrease in productivity[7] (Meridian Group International 2006:4).

The level of education in a country is also significant in relation to this risk factor. The literacy rate and mean period of schooling should be noted since it is assumed that the longer this period is, the higher the quality of human capital in the workforce (Brink 2004:109-110). Both unskilled and skilled workforce is needed when constructing a hydropower plant. Skilled personnel, who can install, operate and maintain a hydropower plant, may not exist in large numbers. Thus this becomes prevalent for the hydropower sector.

Energy Dependence: The African continent is in desperate need of energy. Energy has always been considered as a strategic sector, essential to international competitiveness, economic and social development, and national security (UNIDO 2007:24). The strategic nature of natural resources such as hydropower makes it more prone to uncertainty and possible government intervention. The increase in resource nationalism one has witnessed the recent years, has heightened the perceptions of expropriation (MIGA 2009:31). However, a country that depends heavily on energy import can benefit from hydropower as it can benefit their economy, as hydropower is not dependent on energy imports, and therefore unaffected by the fluctuation of the international energy prices (UN Water 2008:31).

Expropriation or nationalization poses a significant political risk for foreign investors. However, investors with great bargaining power consisting of capital and expertise are needed by the government to develop the economy and to exploit its resources (Comeaux & Kinsella 1994:14). The capabilities of the company thus become essential when analyzing how this risk can be mitigated in a risk management analysis. Additionally, how dependent the host country is on energy supply, and especially hydropower should be considered.

Environmental Vulnerability: Current models on climate change impacts indicates that Africa is the continent most at risk, with both drought and desertification, and heightened flood risk that can be disastrous if impacting vulnerable under-resourced societies (World Economic Forum 2010:6). Greater frequency and severity of extreme weather events raises the threat of food insecurity, water insecurity and more poverty, disease and population

[7] Additionally lower respiratory infections, HIV/AIDS, diarrheal diseases, tuberculosis, malaria, and measles, cause more than 90% of the deaths from infectious diseases worldwide. Despite recent reductions in prevalence, these diseases still cause more than 50-60% of all deaths in Africa (World Economic Forum 2010:7).

displacement in the continent. (World Economic Forum 2010:14). Social unrest has already been sparked by food prices in some African countries, and triggered riots in Niger, Senegal, Burkina Faso, Cameroon and Mozambique (World Economic Forum 2010:8), and thus poses a political risk for companies. Africa also faces the challenge of poor water security because the variability of fresh water is variable and unevenly distributed across the continent and threatens human survival, agricultural production and human growth (World Economic Forum: 2010:8).

Climate changes will have an effect on the viability of hydropower projects, exemplified by extreme event as flooding. More sediment on top of changed composition of water, could raise the exposure to turbine erosion and can also lower the turbine generator efficiency which can result in a decline in the energy generated (UN Water 2008:5).

Hydropower projects have the potential to cause environmental degradation as they can alter forest and land into aquatic ecosystems and effectively reduce the availability of farmlands. Hydropower dams can also compete in part with the usage of water for irrigation *"since using the energetic potential of hydropower by running turbines means that the water is only available at a lower altitude afterwards"* (UN Water: 2008:29). The construction of dams indirectly or directly affects the use of land through competition for land use with agricultural, recreational, scenic or development interests (Beck & Martinot 2004:5). Environmental degradation caused by business operations might lead to activism from local communities and NGOs, which also can lead to compensation demands (Jakobsen 2010:487). How environmental degradation can create risks for hydropower companies, and how hydropower can affect the environment and cause political risk are therefore the two dimensions that should be assessed.

Regulatory Framework: Political risk related to regulatory actions is perceived as the most consequential and also most likely to occur for foreign business (Komendantova, Patt, Barras & Battaglini 2009:1, 3). Regulatory burdens such as complicated regulations and the lack of effectiveness in the departments that deals with energy, local-content policies, and inadequate policies is of importance to assess. A rigid an ineffective regulatory framework is time- and cost consuming for private companies and causes political risk due to the potential of delays and incertitude about the administrative and legislative procedures (Beck & Martinot 2004:3)

Transparency, efficiency and inclusiveness could reduce uncertainties for foreign investors by providing more predictable applications of government rules and regulations that can enhance the investment climate (Komendantova et al. 2009:3, 5). Regulatory risk is also connected to possible government interventions such as non-payment and non-enforceability of contracts, expropriation, cancellation of licenses and permits, limitation of business options, property rights, discriminatory actions against foreign ownership, under/overregulation, legal issues and taxes (Nodland 2006:29).

Attitudes Toward Foreign Business: Political leaders have to satisfy a variety of domestic interests to remain in power and might therefore not prioritize improving the business conditions for foreign businesses (Bray 2003:291). When making deals with private companies, governments face a political risk as natural resources are considered as a part of a country's national patrimony and selling these resources can be regarded as a betrayal (Bray 2003:315). This form of nationalism can sometimes be protectionism put forward by local commercial interests when faced with competition, or by the population (Bray 2003:315). Attitudes of local government towards hydropower development must be considered in a risk assessment as well as the demand of nationalism. If the regional government fails to give its consent, or is ineffective, the project may not be feasible even though the host government approves (Bray 2003:316). Nationalism can also manifest itself through reluctance of governments to ease regulations that restrict their business operation (Bray 2003:292).

Foreign dominance of important sectors in the national economy such as hydropower, can spur anti-foreign capital sentiments and actions (Jakobsen 2010:488). As already mentioned energy companies face the problem of asset specificity when investing abroad. This means that companies from this industry have to make significant capital investments before expecting to get any returns in form of profit. This type of investment amount to a *"hostage"* situation, once the companies have invested, they cannot simply withdraw from the host country. However, if the company brings capabilities not easily accessed from other national actors, it can turn into an opportunity (Bray 2003:292).

3.5.4 Risk Response

The political risks for hydropower companies in sub-Saharan Africa have now been identified. The next step is to introduce the concept of risk response with the corresponding risk mitigation measures that enables the management of political risks.

"Once the risks of a project have been identified and analyzed, an appropriate method of treating risk must be adopted" (Wang et. al 2004:238). Risk response is done in light of the measures that will have to be implemented in order to manage political risks to secure profitability of the investment (Brink 2004:149). Bremmer & Keat (2009: 192) have

identified four main strategies for reducing the likelihood of a political risk to occur: Eliminate the threat, minimize its likelihood, isolate the event, or avoid the risk altogether. Obviously, the ideal of a company would be to eliminate all possible risks. However, some risks cannot be eliminated and can at best, only be minimized or isolated (Bremmer & Keat 2009:193). An emphasis on those risk mitigation measures that have the ability to mitigate political risks will therefore be the main focus of the analysis. There are a number of ways in which foreign companies can manage political risk.

According to Brink (2004:156) there are two ways of reducing the impact of political risk and those are integrative and protective techniques. The purpose of integrative techniques is to increase the integration of the foreign company into the host environment, based on the assumption that the more integrated a foreign company is, the less it will be perceived as *"foreign"* to the environment it operates in (Brink 2004:156). Examples of techniques that can be called integrative are: policies related to local sourcing, distribution and employment; sharing of ownership with the host government, local firms, and /or local citizens, and close ties with governments to ensure compatibility between the host government's goals and the corporate goals (Brink 2004:156).

Protective techniques' purpose is to discourage interference from host government, or to minimize the company's potential losses in the event of interference. These measures aim to provide for a non-integration of the foreign investment into the host country environment (Brink 2004:156). Protective techniques range from financial techniques; vertical integration; maintaining full ownership (including technology); and intra-company sourcing (Brink 2004:157). Ideally, foreign companies should endeavor to develop a risk management framework that includes both integrative and protective techniques. This is because the use of integrative techniques will enable companies to respond to the demands of a host country's political environment, and also the opportunities presented by this. On the other hand, protective techniques can assist companies in protecting their competitive strengths (Brink 2004:156-157).

3.5.5 Risk Mitigation Measures

Risk mitigation measures that are planned, budgeted, and actually implemented have the potential of reducing the political risks that exist in hydropower projects (Ledec & Quintero 2003:3). Risk mitigation measures can be divided into three broad categories; risk sharing and transfer, strategic relationships and political risk policies. This section's objective is to give an outline of these measures, and to further categorize them as either protective or integrative, in order to analyze whether the identified measures can reduce the political risk factors that are deemed as high risk in Zambia, South Africa and Mozambique.

Risk Sharing and Transfer: The objective of risk sharing and transfer is to obtain external sources of finance in order to share the political risk and thus reduce the company's own risk. Foreign companies usually share and transfer the risk to joint venture partners and external lenders through project finance and political risk insurers. These measures have the potential of reducing political risk in addition to bringing about opportunities for the investing firm, enabling companies to invest in risky zones (Bray 2003:321).

Joint ventures: Entering into joint venture partnerships is a proactive way of tackling some forms of political risk by choosing a partner- either the government, or a company that is well-regarded by the government to share risks. This type of partnership therefore serves as a buffer for state intervention (Wood 2009). In addition, when establishing operational presence in a country, entering into joint ventures give access to local knowledge by *"borrowing a partner's already-in-place local infrastructure"* (Doz, Prahalad & Hamel in Inkpen & Beamish 1997:180,) and thereby prevent unnecessary problems which can occur when foreign investors operate in unknown business environments. A local partner contributes with knowledge about the government and society, and can therefore navigate the company through legal processes, administrative incompetence and political corruption. In addition, the local partner might have important contacts within the political hierarchy and serve to reduce the skepticism often associated with foreign capitalists (Jakobsen 2004:121). Joint venture partnerships are therefore both an integrative and protective technique.

Project Finance: Is recognized as one of the principal risk mitigation measures, especially related to energy developments (Pollio 1998:687). International financial partners, usually multilateral agencies[8], can provide leverage for foreign investors in order for better protection against political risk as well as to share the financial burden (Bremmer & Keat 2009:159). Companies involve influential multilateral agencies because they believe that the governments of host countries are less likely to pull out of agreements that give them significant support in other areas such as aid and bilateral trade (Bray 2003:322, Boshoff 2010:67). Essentially, the backing from key international players may reduce political risks that can be caused by government interventions due to the governments' fear of losing access to international financial markets, withdrawal of aid, and other types of sanctions (Bremmer

[8] External finance can be raised from private financial institutions or institutions such as the World Bank's private sector affiliate, the International Finance Corporation (IFC) or other major aid providers (Bray 2003:322).

& Keat 2009:159, Jakobsen 2004:124). According to Brink's (2004) categorization of risk mitigation measures, project finance can be categorized as a protective technique, as it protects the assets of the foreign company.

Political Risk insurance: Companies buy political risk insurance to protect themselves against property- and casualty losses, an against product liability suits (Brink 2004:163). The insurance industry on political risk has traditionally been focusing on four main areas: Expropriation, governmental renegotiation of contracts and confiscation, currency transfer, and war and other civil disturbances. Risk insurance can be divided into two types of categories: private insurance and public insurance (Jakobsen 2004:125-126, Bray 2003:323). Obtaining political risk insurance is therefore a protective technique.

Strategic relationships: *"The more that companies can do to build up a wide body of support among different sections of the host population, the safer their investment will be"* (Bray 2003:293). The aim of an integrative approach as strategic relationships are, is to meet the expectation of stakeholders, without losing sight of own goals (Brink 2004:151). The objective of strategic partnering is to promote effective results for all parties: business, governments, the community and NGOs. Hence, the theory on stakeholders is increasingly being regarded as one of the touchstones of good corporate responsibility management. Companies pay attention to stakeholders by adopting integrative processes (Blowfield & Murray 2008:160). The most important stakeholders related to political risk management are: the national government, the provincial and local administration, the local community, and NGOs.

The national government: This relationship is of strategic importance since it is not possible for companies to operate without the government's consent, and host government's intervention policy can impose severe constraints on a company's strategies and operations (Moon & Lado 2000:85). The government's are responsible for the overall legal, political and social environment in which the companies operate. Consequently, a good relationship between companies and governments should be nurtured in order to reduce or take advantage of the opportunities this relationship might bring (Bray 2003:314).

Provincial and local administration: If the provincial and local administration fails to give its consent, or are ineffective, the investment may not be viable (Bremmer & Keat 2009:152, Bray 2003:316). In many countries local and regional governments exert noteworthy influence over taxation rate agreements, business permits and other elements of regulatory power that can influence the foreign investment climate. If these governments in addition are elected, they can face significant media, public and interest group pressure that can materialize when regulations are enacted and implemented. Hence, it is important to create good relationships on a local government level, and also to understand the regional and local dynamics in the areas in which foreign investors will operate (Bremmer & Keat 2009:152-153).

Local communities: Good community relations, as well as first-rate local knowledge to identify key local stakeholders are prevalent from the beginning of a business establishment, and should therefore be an essential approach for companies to pursue (Bray 2003:317). Examples of engagement with local communities is to employ the workforce from the local community in the construction phase of a project, address land rights to everyone with a genuine entitlement, and maintain a general good reputation and image to the public. This can be done through actively participating in public relations activities and charities, and by complying with local social and cultural values (Bray 2003:318, Wang. et al 2004:245).

NGOs: The role of NGOs in creating risk for corporations has been thoroughly discussed in the literature. For corporations, NGOs can bring knowledge and expertise, credibility and reputational gains (Cowe 2006). NGOs represents stakeholders outside of the core corporate structure, and thus provide an early warning network of potential problems that arise as a result of the company's business activities. In this sense NGOs provide opportunities to reduce risks in proactive ways. Business – NGOs relations therefore provide a means for linking the economic world of business with the social and value-generating one of civil society, and thus serve as a valuable risk mitigation measure for companies (Waddell 2000:205, Cowe 2006:2).

Political Risk Policy: Not planning for a political risk policy implies:

> *"…a degree of ignorance of local conditions in a country; insensitivity to possible changes in the particular industry's investment climate both in and outside of the host country; and a lack of acknowledging the relevant stakeholders in decision making processes" (Brink 2004:164).*

The aim of a formulation of a political risk policy is to reduce a company's exposure and vulnerability to political risks without drastically changing the company's overall business strategy (Brink 2004:167). It consists of three approaches: corporate values, triple bottom line, and contingency plans.

Corporate values: Clearly defined corporate values are a key risk mitigation measure that should be integrated in a company's risk management (Nodland 2006:25). When analyzing a company's social and environmental credentials through corporate values one must look at the company's voluntary internal policies and practices as well as their compliance with external regulations (Bray 2003:304).

Internal corporate values can be measured through the company's code of conduct, which is a set of guidelines on how companies should conduct their business. External regulations can be related to multilateral guidelines for corporations such as the UN Global Compact (PwC 2006:7, Meridian Group International 2006:1). One can build a strong reputation through a comprehensive corporate social responsibility (CSR) approach in a company's corporate values; the possession of a track record in responsible business practice can reduce a project's permitting time, enhance corporate-community relations as well as contribute to the overall competitive advantage of operations (PwC 2006:10, Warhurst 2001:64). A corporate value policy drives closer collaboration with governments, NGOs and community partners at the operational level, and address policies with regards to indigenous peoples, human rights and corporate governance. The more elaborated and focused these corporate values are, the better they might lead to measurable standards (Warhurst 2001:69, Kolk, van Tulder & Welters 1999:150).

Triple bottom lining (TBL): Another way for companies to manage political risks is to create clearly defined structures for reporting and addressing them (Bremmer & Keat 2009:180). This can be done through applying a TBL approach, which entails commitment to economic, social and environmental performance (Blowfield & Murray 2008:135, 28). Today it is regarded as a mechanism for accounting and reporting related to impact assessments (Vanclay 2004:27, 30). According to Vanclay & Bronstein (in Vanclay 2004:30), impact assessment can be defined as *"…the prediction or estimation of the consequences of a current or proposed action (project, policy, technology)",* and is therefore an integrated approach compounded of two forms: environmental impact assessment (EIA) and social impact assessment (SIA). The establishment of effective policies and procedures to manage political risk should include these types of assessments (Bray 2003:303). Impact assessments are designed to target external stakeholders to provide them with an assurance of the company's social and environmental commitments, to build trust and live up to shareholder's expectations (Blowfield & Murray 2008:202). EIA is a process of identification and prediction of potential environmental impacts of proposed projects and actions, and the communication of this information (Vanclay 2004:30). The concept embraces aspects such as natural resource management and pollution prevention and control. SIA includes human rights, working conditions, labor rights, impact on indigenous peoples, and impact on local communities (Blowfield & Murray 2008:316-317).

Contingency plans: Foreign companies should draft a contingency plan to prepare for all possible outcomes of potential political risks the company might encounter. A contingency plan will ensure the capacity to survive a threat and it is an important tool of risk management for a company (Bremmer & Keat 2009:194). Preparations can range from business continuity planning and lobby capacity development that can mitigate potential risks (Bremmer & Keat 2009:194). The outline of a contingency plan will depend on the risks that the foreign companies are exposed to, and consequently the risks must be identified before crisis preparations can take place.

4.0 RISK ASSESSMENT OF ZAMBIA, SOUTH AFRICA & MOZAMBIQUE

4.1 Chapter Introduction

The objective of this chapter is to give an informative account of the political risk environment related to foreign investments in Zambia, South Africa and Mozambique. First, the historical political context and the current political context of Zambia, South Africa and Mozambique will be presented, followed by a risk assessment with the political risk factors derived from the analytical framework. This will lay the basis for chapter fiver, where the factors considered as high-risk will be analyzed in the context of SNPA's company capabilities and risk mitigation measures.

4.2. Zambia

4.2.1 Historical Political Context

Zambia attained independence from Britain in 1964. Kaunda became the first republican president of Zambia, and represented the United National Independence Party (UNIP), which was the ruling party until 1990. In 1991, the country opened up for multi-party elections due to international and domestic pressure, and the Movement for Multiparty Democracy (MMD) won, and has won all of the Zambian elections since (Gordon & Gordon 2007:90, Freedomhouse 2010a). MMD was originally a loose coalition of the urban population and the trade union movement, but it organized itself as a political party to represent a viable opposition to the sitting government (Lunn, Beale & Townsend 2009:2). In spite of a relative peaceful transition to a multi-party system, the subsequent election in 1996 saw deliberate harassment of the Zambian opposition parties. The election in 2001 was further marked by administrative problems with three parties filing a legal petition challenging the election of the ruling party candidate Mwanawasa. However, in 2006 he was re-elected in an election that was deemed free and fair (UCLA African Studies Center 2010a). Mwanawasa died in 2008 and vice president Rupiah Banda was elected as president in the election that followed, he is still the president of Zambia (Freedomhouse 2010a).

The economic mismanagement during the Kaunda period brought deterioration of the domestic conditions of Zambia, causing severe food shortages, and a vivid increase in inflation rates and unemployment. The optimism was therefore high when a new government was established in 1991, but did not bring about the improvements in the country's economy that were expected. When the president left office 10 years later, the Zambians were still beleaguered by food shortages, high inflation rates, and worrying unemployment that the MMD government had failed to address (Lunn et.al 2008:4).

4.2.2 Current Political Context

Zambia has moved from being a significant producer of copper and potentially one of Africa's richest countries at its independence in 1964, to become one of the world's poorest countries. The legacy of colonialism, mismanagement from the political leaders, debt and disease are said to be the main reasons for the country's lack of development (BBC 2010a). Currently, the country is facing many challenges. 2009 was a year characterized by uncertain copper prices, job losses, high inflation and tensions between the Zambian government and mining companies, in addition to donor nations who have been dissatisfied with the Zambian government's efforts to combat corruption. Furthermore, the state of the public finances has been poor, and the government has turned to international institutions for financial aid (The Africa Report 2010a).

In spite of economic mismanagement, the 21st century has been a period of sustained economic growth. However, a higher level of growth (7% or more) is needed if the poverty in Zambia is to be reduced (Lunn et.al 2008:4). The main constraints to economic growth in the future include a decrease in productivity caused by the high prevalence of HIV/AIDS, shortage of energy, especially electricity, and further appreciation of the Zambian currency (African Development Bank 2008:619). Zambia is heavily dependent on foreign aid. After the Heavily Indebted Poor Countries (HIPC)- and the Multilateral Debt Relief Initiative (MDRI) relief were granted in 2005 and 2006, Zambia's foreign debt has remained at a low level. The government is now very reluctant to take up non-concessional loans and intends to limit its external borrowing to finance growth-enhancing projects (African Development Bank 2008:623). Ambitious reforms have been taken place over the years in order to increase the economic growth as well as political development in various areas ranging from public sector managements and decentralization to private sector and financial sector development. The constitution has also been under revision, and the government's ability to implement these reforms is now being tested (African Development Bank 2008:624).

4.3 South Africa

4.3.1 Historical Political Context

Dutch traders established a stopover point on the spice route between the Netherlands and the East in modern day South Africa in 1652. After the British seized the Cape of Good Hope in

1806 many of the Dutch settlers trekked north. The diamonds and gold discovery prompted wealth and immigration, leading to an intensification of the suppression of the native inhabitants. The British and Dutch ruled together under the Union of South Africa that was created in 1910 (UCLA African Studies Center 2010b).

In 1948, the Afrikaaner National Party was voted into power, and implemented a policy of apartheid[9]. However, excessive domestic and international pressure prompted President de Klerk to legalize the anti-apartheid African National Congress (ANC)- the main resistance movement to the white minority, and to release the ANC leader Nelson Mandela from prison in 1990. Between 1990 and 1994, almost all apartheid legislation was abolished (Freedomhouse 2010b).

The first multi-racial elections were held in 1994 where ANC won, and Nelson Mandela became president. As required by the interim constitution, a national unity government was established that included the ANC, the National Party and the Zulu-nationalist Inkatha Freedom Party. In the subsequent election, the black majority ANC won almost two-thirds of the votes with Thabo Mbeki, Mandela's successor as president. In 2004, the ANC won an even greater victory with almost 70% of the national votes (Freedomhouse 2010b). By this, the ANC consolidated its position as the dominating party in South Africa, which has dominated the political environment since.

4.3.2 Current Political Context

After the end of white rule, Mandela's visionary leadership gave confidence in the belief that a political miracle had occurred. Its negotiated transition from minority rule to democracy is indeed one of the wonders of the end of the twentieth century, but remains *"…only the first chapter of the post-liberation narrative"* (Russel, 2010:xvi). Only a decade and a half after the first democratic elections, the history of South Africa still has a profound influence on the political state of affairs (Butler, 2009:1). The legacy of apartheid continues to manifest itself in form of economic, social and political inequality with especially poverty and lack of empowerment among the disadvantaged groups. Another legacy has been for the ANC to convert from a national liberation movement to a government ruling in a democracy (Gibson, 2003:774, UCLA African Studies Center 2010b).

Over the years, rifts within the ruling party and the governing alliance including South African Communist Party (SACP), and the Congress of South African Trade Unions

[9] The separate development of the races through a platform of institutionalized racial separation, designed to maintain white minority rule, and black and colored oppression (Freedomhouse 2010b).

(COSATU) have characterized the political climate. There has also been a hostile climate between the ANC and the opposition parties. In addition, personal conflicts between Mbeki and his deputy president Jacob Zuma has materialized. In December 2007, Zuma defeated Mbeki in a battle for the presidency, and Zuma's allies were elected to fill the majority of the ANC's executive positions. As a result, Mbeki supporting ANC leaders established a new party, Congress of the People (COPE) in 2008 (Freedomhouse 2010b). Despite the new competition from COPE, the ANC won another striking victory in the 2009 elections, taking 65.9% of the national votes and further consolidated its position. Today the Democratic Alliance (DA) is the leading opposition party, followed by COPE and the Inkatha Freedom Party (Freedomhouse 2010b).

South Africa is a constitutional democracy, moving towards consolidation, where all the formal requirements of democracy such as constitutionalism, rule of law, separation of powers, independence of the judiciary, freedom of the press, protection of human rights, regular free and fair elections, and the right to opposition are formally met (Venter 2005:30). Additionally, South Africa is the economic powerhouse of Africa, a middle-income emerging market, rich on natural resources, well-developed financial, legal, communications, energy, and transport sector, and a modern infrastructure supporting an efficient distribution of goods to the major urban centers (Mbendi 2010a, UCLA African Studies Center 2010b). Compared to other emerging markets, South Africa displays a high structural current account deficit financed primarily by potentially volatile portfolio inflows. Consequently there exists uneasiness about the country's vulnerability to changes in the global environment. Despite progress on the macroeconomic front, South Africa remains confronted with major structural and social challenges where infrastructure and human capital have suffered from years of underinvestment and lack of competition. Unemployment, lack of skills, and poverty remains a significant problem to the country (African Development Bank 2008:556), and political conflicts, energy crisis, and the consequences of the financial crisis have influenced the political environment. (Millstein 2009:241).

4.4 Mozambique

4.4.1. Historical Political Context

Mozambique was colonized by Portugal in 1498, and became independent in 1975 after ten years of military struggle against colonial domination (Serapião 2004:365). After the guerilla triumph, the new Frelimo government had set out to transform the social, political, and economic life of Mozambicans as part of a Marxist-Leninist agenda, cultivating close relations with the Soviet bloc and China, and opening its borders to other liberation movements, particularly those that were challenging the white minority-regimes in Rhodesia and South Africa (Weinstein 2002:147). The tight domestic control was seen as essential to build a socialist society, and the government suppressed all political activity outside of Frelimo. Frelimo's platform in 1977, and its ambitious reforms and nationalization projects were disruptive to the country's society and economy, undermining Frelimo's already weak legitimacy (Manning & Malbrough (2010:148). The choices made by Frelimo at the domestic level in terms of development and economic policies, by excluding certain groups from governance processes on the basis of ideology, contributed to the establishment of a domestic foundation for destabilization and the consolidation of Renamo[10]. In 1977, civil war broke out between the two parties encouraged by Rhodesia and South Africa (Lundin 2000:2, Manning & Malbrough 2009:77).

Since the policies initially were designed to benefit the colonizers, little attention was paid to national integration, economic infrastructure and skills of the population (Pereira 2009:2). Subsequently, Mozambique was one of the world's poorest countries at independence. The socialist mismanagement and the brutal civil war exacerbated the situation in the country (BBC 2010b). The civil war, sabotage from neighboring states, in addition to the economic collapse, characterized the first decade of independence in Mozambique as well as a mass emigration of Portuguese nationals, weak infrastructure and economic mismanagement (Pereira 2009:3).

In 1983, Frelimo admitted the failure of socialism, and recognized the need for significant political and economic reforms. When the peace talks were initiated between Frelimo and Renamo in 1990, a new constitution was enacted, providing for a multi-party political system, a market-based economy, and free and fair elections (Pereira 2009:3). The peace accord in 1992 ended the civil war, and in 1994, the country held its first democratic election where Frelimo's Chissano was elected president (Pereira 2009:14). Renamo accepted the outcome of the elections and transformed itself to into a peaceful opposition party. Yet, in the subsequent election, Renamo accused the government of fraud and threatened to form its own government in the provinces it controlled (Freedomhouse 2010c). Nevertheless, the

[10] Renamo was founded in 1976 by the Rhodesian Central Intelligence Organizations to mostly fight ZANU operatives based in Mozambique (Manning & Malbrough 2009:77).

country has now made significant progress in terms of economic development and political stability (BBC 2010b).

4.4.2 Current Political Context

Guebuza from Frelimo is currently the president of Mozambique. He succeeded the long-time leader Chissano in 2005. He won another term in 2009 with a massive majority (BBC 2010b). Frelimo continues to claim the alleged progress in rural development, health, education and basic infrastructure of Mozambique and no party is in a position to challenge them for at least another election (The Africa Report 2010b).

Mozambique has experienced the economic destitution that is often associated with transition to a market economy, with a significant impact on the lives of Mozambicans, who previously could access cash, free education and health care, stabilized prices and stable jobs, even though the country always has experienced food shortages. In contrast, the transition to market economy brought more food security but at the cost of price hikes, unemployment, inflation and a general uncertainty in the country (Pereira 2009:6). On the other hand, Mozambique has experienced high levels of economic growth, owing to a relative stable political environment and commitment of the government to donor-backed reforms (Freedomhouse 2010c). Nonetheless, the economic growth is mainly due to the post-conflict reconstruction that took place in the country (UCLA African Studies Center 2010c). After years of steady economic growth with an average of over 8% for more than ten years, the economy has experienced problems that have beset other developing countries. The exports in Mozambique have suffered, and the trade and current account balances have turned negative. Moreover, there are growing gaps between the richer and poorer parts of the country, and the general poverty remains widespread, with more than 50% of the Mozambicans living on less than $1 a day (The Africa Report 2010b, BBC 2010b). However the country is considered as one of the success stories of Africa although the country is heavily reliant on foreign assistance (Mbendi 2011b). The country's once substantial foreign debt has been reduced through forgiveness and rescheduling under the IMF's HIPC and is now at a controllable level (UCLA African Studies Center 2010c). The economy has shown resilience in the face of the recent global financial crisis, and the close relationship with international donors has financed significant spending levels on social-sector investments (Freedomhouse 2010c).

4.5. Risk Assessment

4.5.1 Political Stability and Legitimacy (Macro Risk)

Zambia: Zambia is enjoying a relatively stable political environment underlined by successful elections in 2006 and 2008, although with minor irregularities and violence after the announcement of the results. Analysts have even been speculating that if this continues, Zambia might be on the verge of discovering the way to development (Lunn et. al 2008:4). However, during Banda's time in office, the general political climate has been marked by contentious politics and governance challenges, as the president has been in conflict with members of his party seeking to challenge his leadership position. In addition, the government has taken aggressive and at times violent actions against the political opposition and the civil society perceived to be against the president. However, there is no evidence of systematic harassment from the government and the opposition has been able to operate relatively freely (Freedomhouse 2010a).

Zambia's election in October 2011 is expected to be highly competitive as the two biggest opposition parties agreed to join forces to challenge MMD (Global Insight 2011a:6). It remains to be seen which of the party leaders that will be the presidential candidate as this is a source of contention that might lead to the end of the cooperation. At present there is internal dissent within the MMD party, as Banda wants to extend his presidency beyond the next election. This decision has drawn criticism for being undemocratic. Despite some negative signs of the political climate in Zambia, the overall peaceful and orderly environment in which all the elections have been held, indicates that politicians, regardless of their increasingly aggressive rhetoric towards each other, and the public as a whole, are now accepting pluralism (Global Insight 2011a:6).

The political environment is likely to be dominated by a number of issues this year, such as the adoption of a new constitution- a major source of conflict between the MMD and the opposition, the opposition's effort to oust MMD from its government position, and the internal dissent over Banda's wish to extend his presidency (Global Insight 2011a:6-7). The one-party domination in Zambia is largely due to the presence of numerous opposition parties that have taken votes from each other and therefore allowing the MMD to win the elections without even being close to obtaining an overall majority. If the two opposition parties succeed in joining forces this year, they might stand a chance of defeating the MMD (Global Insight 2011a:12). However, there are no signs that the political stability and legitimacy in the country are threatened and does therefore not create any significant political risks.

South Africa: The political climate in South Africa has been, and will likely remain stable, as ANC further consolidated its power in the elections in 2009. The re-election has represented policy continuity favorable to foreign business, especially as the head of planning is considered as being a key moderate (EIU 2010a). Nonetheless, there are developments that threaten to undermine the political stability with possible implications for the political risk for companies operating in the country. The continuing dominance of ANC points toward higher political risk as history shows that where one-party dominance occurs, it can lead to arrogance, corruption, and confusion of the interests between the ruling party and the state (Venter 2005:33). The absence of a strong formal opposition has not materialized. As the ANC is a broad coalition of different groups, a stringent within-opposition has grown. There has especially been a confrontational rhetoric between ANC and the country's biggest labor union COSATU, who has been unwilling to accept the business-friendly labor reforms proposed by ANC (Venter 2005:33). In addition, there is growing public dissatisfaction with ANC's stranglehold on power, continuing to fuel divisions and could therefore lead to a potential split in the future (Global Insight 2011b:6).

However, the lack of credible opposition that can attract the electorate, independent of political, class, and racial divides, is likely to ensure ANC's continued dominance. This has led to a fear of political stagnation with implications for the legitimacy of the political system (Global Insight 2011b:6). Two opposition parties, DA and the Independent Democrats (ID) announced in 2010 that they would join forces to challenge ANC's dominance. The next election is in 2014, and it is expected that ANC will win (Global Insight 2011b:6). In addition there is a leadership problem with regards to the president. Zuma has been involved in corruption scandals and is currently working to clear his name. Adding to the complications are his questionable leadership skills as well as his controversial private life, which have served to undermine him as a leader and prompt the question of whether he will be re-elected (EIU 2010a).

Political violence has occurred after the end of apartheid rule, although never severe. It increased in the run-up to the 2009 elections where 40 incidents of electoral violence were reported, most of them in KwaZulu-Natal and the Eastern Cape. Additionally, five politicians were killed of violence related to the election and the inciting rhetoric during the campaigns from party officials has been blamed for these incidents (Freedomhouse 2010b).

Mozambique: Frelimo is the only party to hold power in Mozambique, and its unbroken position has allowed it to obtain significant control over the state institutions. In the lead-up to the 2009 elections, the government was heavily criticized for disqualifying candidates representing the opposition on technical grounds when the real motive was political. The campaign period was further marked by partisan violence mainly from the ruling party, with attacks where a Renamo supporter was reportedly killed. However, the elections in 2009 served to entrench the political status quo in the country. In fact, the party won the two-thirds majority required to stand unopposed in the parliament (Freedomhouse 2010c).

Despite of this, the low voter turnout indicates voter apathy that undermines the legitimacy of the government, exacerbated by the continuing centralization of power around the president. Frelimo's victory should therefore not be confused with endorsement of the regime. The popularity of the party has been undermined by the way it won the elections in 2009, with lack of transparency and numerous procedural obstacles. However, the party has been able to capitalize on fractions within the opposition (Global Insight 2011c:6, 11). It has been stated that the gap between Frelimo and Renamo never has been as wide as presently. Renamo used to be one of the biggest opposition parties in sub-Saharan Africa, but has now lost its position in the country due to internal divisions. Today the party has only 15% of the seats in parliament. A new political party has emerged, and is expected to be an influential actor for the elections in 2014 (Global Insight 2011c:6-7). The growing tensions between Frelimo and the opposition party is largely due to the president's centralization tendencies, seeking to consolidate the party's dominance, at the risk of weakening democratic reforms (EIU 2010b).

The overwhelming majority Frelimo won has raised the concern of whether it will tighten its grip and change the constitution to its own advantage (Global Insight 2011c:10). The president is also getting older, and this has led to leadership speculations, as he has not given any indications of a preferred successor. His departure could create a destabilizing factor, as factions of the party most likely would compete for dominance (EIU 2010b). Even though there are no prevalent signs of threats to the political legitimacy and stability of Mozambique, the undermining of the opposition, and the difficultness of distinguishing between the ruling party and the state, have the potential to threaten the legitimacy of Frelimo, and have a destabilizing effect on the country. Overall, the president has created a more authoritarian and confrontational political environment, breaking with his predecessor who promoted national reconciliation, and therefore raised tensions (EIU 2010b).

4.5.2 Political Effectiveness and Accountability (Macro Risk)

Zambia: The bureaucracy in Zambia is characterized by long and complicated administrative procedures, especially related to obtaining licenses and permits for the private sector (Global Advice Network 2010a). However, the government has a relatively sound record in promoting and implementing liberal pro-business policies with many opportunities for foreign investors to participate. In spite of this, the quality of the bureaucracy is low with considerable delays between announcements and implementation of policies (EIU 2010c). In addition, there is also considerable instability every time the government or presidency changes, as Zambian politics is largely based on patronage (EIU 2010c).

The corruption committed by civil servants and politicians has not been adequately investigated and prosecuted, implying that accountability in the country is low and that judicial processes are not autonomous from political interference. It is especially in relation to land administration that the corruption is rife, but it is still pervasive at all levels and sectors. Facilitation payments are also prevalent. However, the ratification of several anti-corruption conventions illustrate that the Zambian government is headed in the right direction of creating an enabling environment for the private sector (Global Advice Network 2010a).

South Africa: The leading members of ANC and the civil service are considered as highly educated and competent in South Africa. However the efficiency and effectiveness of lower ranking civil service constitutes a problem because policies are not habitually implemented quickly or efficiently, especially at the local/regional level. The government has attempted to improve the bureaucracy faced by foreign investors, but with limited success. Foreign investors have therefore been encouraged to build in some delays into their business plan when investing in South Africa (EIU 2010a). Moreover, there have been some growing concerns that the ANC will make some shifts in their economic policy because of the party’s obvious swing to the left and the increased influence of COSATU and SACP. However, Zuma has assured that there will not be any major shifts and that ANC will continue to support a market-based system balanced by a development-focused state (EIU 2010a).

Compared to the rest of Africa, foreign companies encounter a less complicated bureaucracy in South Africa. Nonetheless, public services are still characterized by high levels of excessive regulations and rigid conformities, much to the disadvantage of companies (Global Advice Network 2010b). In addition, corruption is a considerable risk to foreign investors, although less than in many emerging markets, due to the country’s well-functioning government institutions. Nevertheless, business surveys indicate that corruption still is a significant obstacle to business operations (EIU 2010a, Global Advice Network 2010b). Despite the launch of anti-corruption initiatives, there is a lack of political will to confront the problem. More constrains on the media and a weak administration indicates a risk for investors, as suspicious deals could increase (Ibtimes 2010).

The political dominance of ANC has also weakened institutional checks and balances, and the party's political power has been used to strategically influence investigations in corruption scandals (Global Advice Network 2010b). It is particularly endemic in the granting of government contracts as exemplified by the high-profile procurement scandals that have been revealed the last decade. Moreover, Black Economic Empowerment (BEE) that aims to increase the participation of the black population in the economy, has been criticized for providing too much preferential treatment to the wealthy black elites. According to critics, this has led to increased procurement corruption (Global Advice Network 2010b).

Mozambique: The complicated and non-transparent administrative procedures in the Mozambican bureaucracy are considered as major obstacles to doing business in the country (Global Advice Network 2010c). The current president has removed many competent civil servants and re-politicized the civil service, undermining the progress that was made by the previous government. The president's centralization tendencies have contributed to paralyze decision-making processes, as new civil servants refrain from making major decisions in fear of reprisals. In addition, some civil servants block new investments as a means of protesting against their loss of privileges under the new government. With new investments taking longer time to approve, and the tendencies of centralization, the investment climate has become more unfavorable. There is also a growing tendency for new investments to be approved if involving Frelimo related enterprises. The president's grip of power has ensured policy stability, but it remains to be seen whether he can further consolidate the party's power without protests from the opposition (EIU 2010b).

Although the investment climate has improved over the last years, corruption remains the main business impediment for foreign investors, and especially related to public procurement and land applications, as they provide opportunities for public officials to demand bribes. Corrupt practices happen at all levels of the society, from the state administration to the public and private sectors. (Global Advice Network 2010c). The current president has pledged to fight the endemic corruption in the country and has introduced several anti-corruption initiatives. Control of corruption has unfortunately only slightly improved the recent years. Several political observers have blamed the strong ties between the political and economic elites as the main factor behind the high level of corruption. The ruling party has created a variety of uncompetitive practices by practically institutionalizing donations to Frelimo in some business circles in return for excessive advantages (Global Advice Network 2010c).

In addition, the judiciary is not considered as independent from political influences and is undermined by endemic corruption, scarce resources, poor training and unqualified judges (Global Advice Networks 2010c, Freedomhouse 2010c). The corruption, excessive bureaucracy, and weak judicial institutions point to the broader challenge of Mozambique, and that is to secure transparency and accountability. These factors hinder private enterprises in operating in the country, and especially at the local level (Freedomhouse 2010c).

4.5.3 Internal Conflict (Macro Risk)

Zambia: Zambia has no history of ethnic war and almost no history of unrest and it has been said that the multitude of ethnic groups is a stabilizing factor. The only ethnic tension that has been pressing is the 20-year grievance between the Lozi and the government, as the MMD is considered as pro-Bembe[11] and has therefore ignored the Lozi group's claims to the independence of their homeland, and to the restoration of cultural rights. The elections in Zambia are therefore heavily determined by ethnic and tribal loyalties as much as politics and policies, where the biggest ethnic groups Bemba, Lozi and Tonga compete for ethnic domination (Global Insight 2011a:50).

Political violence remains an occasional problem, especially in relation to elections. Political tensions between the government and opposition parties are always lurking under the surface. Despite its presence, it has never actually escalated into major violence the past years, with the notable exception of the industrial unrest in the country's largest mining company which descended into a full-scale riot, leading to looting and damaging of property (Global Insight 2011a:50). However, concerns about whether Zambia will be able to maintain peace during the elections in October 2011 have been raised. Yet, the extent of such unrest is not expected to have an impact on foreign investors in the country. Furthermore, the risk of armed conflict remains low, as Zambian politics is pluralistic enough for all to engage democratically (EIU 2010c).

[11] The MMD government has come to be staffed by Bembe, an ethnic group who comprise 18% of the total population (Global Insight 2011a:50).

South Africa: Racial, ethnic and language differences are profound in South Africa and therefore a source of ethnic-driven tensions. All of the election results indicate that ethnic groupings tend to support parties in which their ethnic group represents the majority. Thus the governing ANC gets a majority support from the black population whereas, the official opposition DA attracts the white votes. In the formal political sphere, most of the parties tend to emphasize non-racialism and do not explicitly play on race or ethnicity in elections (Venter 2005:39-40). Within the black population, there have also been tensions between the modernizers and the traditionalists. This his led to violent clashes, especially in KwaZulu-Natal, including the assassination of political leaders. The ANC has therefore tried to combine both elements in its politics. Subsequently, tensions within the organization have occurred and are expected on issues such as gender rights, sexual orientation, urbanization, and economic development (Venter 2005:40). EIU (2010a) reports that a potential flashpoint for unrest could be the *"hostile"* political climate between the ANC and DA in the Western Cape. A worst-case scenario would see inter-ethnic and inter-race conflict between South Africans. However, the country has strong institutions, established democratic traditions and a solid and respected constitution that will limit the risk of conflict (EIU 2010a).

The ethnic dimension in South Africa has affected the policies of the state. BEE has a number of implications for investors, such as quotas for affirmative action of black South Africans in the private sector, to the allocation of state tenders, and contracts to black enterprises. From a political risk point of view, government interference in the staffing of private businesses is regarded as a political risk because it interferes with the freedom of management to appoint the most suitable candidates. From a business perspective, reaching government-set targets diverts the attention of management, which is to reach favorable returns for shareholder's capital (Venter 2005:40-41). However, companies without a BEE strategy suffer from legal and public relations difficulties (EIU 2010a).

Overall, the risk of internal ethnic conflict in South Africa is low, as incidents of politically motivated violence have fallen dramatically. There are, however, groups as the neo-Nazi and anti-black Afrikaner Resistance Movement with the potential to cause terror and destabilize the country. Despite the latter's attempt of a comeback in 2009, the group has been inactive the recent years (Venter 2005:40 Global Insight 2011b:61).

Mozambique: Frelimo's relations with Renamo have been tense, but in general, peace has been restored since the end of the civil war. There have been occasions where former Renamo fighters have threatened to take up arms again, and especially after the defeat of Renamo in the 2009 elections. There are about 150 former fighters who always have refused to be integrated into the police or military. Armed ex-guerillas have been known to be involved in several incidents of unrest and abduction in some parts of the country (Global Insight 2011c:43). There have also been incidents of violent street demonstrations by Renamo supporters. In 2000, demonstrations were shut down with considerable police brutality, leading to 120 deaths, and in 2005, 12 Renamo supporters were killed in relation to a disputed local election. With frustration growing in Renamo over lack of policy influence, the risk for more violent protests might increase (EIU 2010b).

It is difficult to predict where and why conflict might break out in Mozambique. According to Astill-Brown and Weimer (2010:6), the potential for political mobilization that might result in violence, increases in line with the urban-rural divisions in the country. At this point however, there are no signs that internal conflicts will threaten the status quo.

4.5.4 External Conflict/Negative Influences of Regional or Other Political Forces (Macro Risk)

Zambia: At present, Zambia does not face direct external threats, maintains good relations with its neighbors, and has a good international standing (EIU 2010c). Nevertheless, as a landlocked country surrounded by eight other countries, it is vulnerable to their state of affairs (Global Insight 2011a:12). Zambia's relationship with Angola used to be tense as a result of the now-ended civil war between the government and the rebel group National Union for Total Independence of Angola (UNITA). The Angolan government often accused Zambia of supporting UNITA by allowing its territory to be used as a supply route and to launch attacks. The government was also critical of the Zambian government's supposed neutrality in the civil war since they refused to side with the government. As the Angolan civil war has ended, their relationship has been normalized (Global Insight 2011a:12).

The borders imposed by the colonizers in Africa, divided many groups between one or more countries, and so is the case for the Zambian borders. This cross-border affiliation has implications for the region as conflicts in neighboring countries could create spillover effects in other countries. The history has shown that this has happened in Zambia. Toward the end of 2000, the security situation on Zambia's border with the Democratic Republic of Congo (DRC) was apprehensive, with both fighters and civilian refugees fleeing from the civil war in DRC (Global Insight 2011a:50, 12). Additionally, the two countries were at loggerheads over Zambia's attempt to arrest the governor of DRC's southeastern province, on charges of corruption and theft of public funds related to his business interests in the country. Today the two countries have a good relationship, and both sides have declared to step up cooperation in different economic sectors. However, the continuation of the low-scale conflict in eastern DRC, indicates that Zambia's border region remains vulnerable to attacks by Congolese militia (Global Insight 2011a:13, 49).

South Africa: South Africa has undergone considerable changes during the last 10-15 years, transforming itself from an international outcast during apartheid, into a democratic regional power, with well-developed economic and political ties to the rest of the region and beyond (Global Advice Network 2010b). At present it has a secure external environment with no immediate threats or competitors for regional hegemony. However, the threat with potential to constitute a political risk is the unknown but large number of illegal immigrants from the southern African region that threatens to drain the resources of the country (Venter 2005:31). A type of xenophobia has therefore developed among the poor and unemployed in South Africa. Should the economic and political circumstances in Zimbabwe worsen, South Africa could be facing millions of refugees, with the potential to overburden the already weak social welfare capacity of the country (Venter 2005:31).

In 2008, a wave of attacks led to the killings of 62 suspected foreigners and the temporarily displacement of 80.000 immigrants. Sporadic attacks on immigrants also occurred in 2009 under the service-delivery protests. 2500 Zimbabweans were forced to flee from their townships after being attacked by residents (Freedomhouse 2010b).

Mozambique: Mozambique's external relations are characterized by its liberation, with Frelimo being an anti-colonial and armed liberation movement. Hence, the government has historical links to other countries with the same experiences. It provided support for the liberation struggle in Zimbabwe, the main reason for Mozambique being reluctant towards criticizing Mugabe's regime. Under the apartheid rule, the country was one of the targeted states for deliberate destabilization, as it provided support to the ANC. Today, the bilateral relationship between these countries is described as good as it is one of the major destination for South African investments (Global Insight 2011c:11).

Mozambique is currently enjoying a good relationship with its former colony Portugal, and Brazil is showing an increased interest to intensify aid and investment in the country. In general it has good relations with its neighbors and the international community, although the worsening of the political and economic situation in neighboring Zimbabwe has given rise to incidents such as theft and assaults against Mozambicans (Global Insight 2011c:11, 43). There is also a risk that the political and economic situation could escalate into civil conflict, as there have been media reports of the establishment of radical opposition groups against Mugabe's regime, with the aim of engaging in terrorist attacks on the government. The splits within the army could also lead to political violence. If this were to happen, the risk of Zimbabweans fleeing to Mozambique is high, exacerbated by the fact that the government would be unable to handle the influx of refugees, whose presence could cause local resentment (EIU 2010b).

4.5.5 Security Risk (Macro Risk)

Zambia: Zambia enjoys a fairly secure environment, with the main security threat being crime, often cited as a major constraint on business. The crime rate is not as severe as other countries in the region, but the increase in severe violence and the growing use of firearms in robberies is becoming a trend. The crime has been fuelled by the high unemployment rate, the lack of a national social security system and more availability of weapons in the country (Global Insight 2011a:49).

The risk of terrorism is low. There have been terrorist incidents in the country, but nothing over the past years. The last terrorist bombing was in 1999 where six bombs exploded in the capital, two of them at the headquarter of the Zambia Electricity Supply Corporation (ZESCO) (Global Insight 2011a:51). The most recent terrorist connection involved a English national of Indian origin, who was arrested in connection with the 2005 bombings in London, suspected to be one of the masterminds of the bombings that killed over 50 people. Overall, aside from crime, there are few other security risks in the country (Global Insight 2011a:51, EIU 2010c).

South Africa: The safety and security in South Africa is one of the biggest concerns for foreign investors, as the crime rate is exceptionally high and creates risks in terms of personal safety as well as the security of private property and physical assets (Venter 2005:42, 49). According to Freedomhouse (2010b), the country has one of the highest violent-crime rates[12] in the world, and remains by far the biggest security threat in South Africa, both for expatriates and local residents (Global Insight 2011b:59, EIU 2010a). Organized crime has become endemic in South Africa, interrelating violence, property crimes and drugs. The fact

[12] On murder, rape, robbery and assault

that South Africa has well-developed transport, communications and banking systems in addition to porous borders, understaffed border posts and a problem with corruption, makes the country attractive for drug cartels as it facilitate organized crime (Global Insight 2011b:60). Furthermore, extortion is a growing problem, with both individuals and businesses becoming targeted, while kidnapping is not considered as a prevalent security concern. When it rarely occurs, it involves the abduction for ransom for a child where the child is returned (Global Insight 2011b:61). Since the end of apartheid rule in 1994, there have been very few terrorism incidents in the country. The only reported incident involves the Cape Town-based pro-Islamic group, Pagad and various white supremacy groups. Despite a lack of recent activity, the CIA claimed in 2004 that South Africa is one of a number of countries that has become a haven for lower-level al-Qaeda operatives. Pakistani intelligence have claimed that the group have planned various attacks in South Africa, including tourist spots, government buildings and other strategic targets (Global Insight 2011b:62). However, at present none of this has materialized.

Mozambique: Considerable strides have been made to ensure safety and security in Mozambique, but the legacy of the civil war is clear from the socio-economic challenges the country faces. Violent crime is a security concern and has increased significantly over the last years. The police have so far not been able to reduce the violence. Occurrences of petty theft, car jacking, armed robberies, and scams, are extremely prevalent incidents, enabled by the access to weapons and growth in drug smuggling (Global Insight 2011c:43). Organized crime networks encompass drugs, arms trafficking and financial fraud, and affects formal business and governmental sectors, in both of which assassinations are not unknown. However, anti-crime measures have been taken to the increased feeling of public insecurity. In addition, land mines continue to be a problem with 1.5 million landmines nationwide, killing over 1000 civilians since 1992, and with the highest number of amputees in the world alongside Angola. At present there are no known active terrorist groups in the country indicating that terrorism is a non-significant risk for foreign investors (Global Insight 2011c:43).

4.5.6 Socio-Economic Conditions (Macro Risk)

Zambia: Zambia has experienced economic growth the recent years, yet it is only a minority of the population benefitting from this growth, as over two-thirds of the population live under the poverty line of US$ 1, indicating severe economic inequalities. 50% of the population is unemployed, and 35% of the population lives in urban areas (CIA 2010). The poverty in the country is linked to the failure of the government of creating sufficient productive and sustainable jobs. With regards to health and education, there are great urban-rural divides within the country, and even though provisions have been made to ensure essential services to all of the population, major challenges remains to secure basic social deliveries (Mwenechanya 2007:5-6, Augland 2009:255).

Due to rise in the petroleum prices, Zambia's inflation rate has increased and has led to high fuel prices in addition to high food prices (Augland 2010:234). The price of food has on several occasions led to urban riots in Zambia, and will consequently continue to be a concern for the government in addition to the rise in fuel prices (Lunn et.al 2008:5). This year the issue of food prices have reemerged, pushing headline inflation to 9%. Moreover, the electricity cost has also increased (35%). A further increase in prices is likely to spark protests with the potential of getting violent (Global Insight 2011a:20).

South Africa: South Africa is characterized by severe structural challenge such as poverty, unemployment, low level of human skills and high crime rates, all factors that creates a non-conducive business environment (Royal Norwegian Embassy South Africa:1 2010). The ANC government remains committed to the delivery of essential socio-economic services to the poor. However, as a result of the global financial crisis and the current economic slowdown, its ability to deliver has been undermined. The ANC came to power based on the promise to improve on the provision for vital social services, and consequently the public is expecting deliverance. There are growing signs of public dissatisfaction over the service delivery in the country, exemplified by the public delivery protests in 2009 (Global Insight 2011b:6).

A recent trend of protests over the swiftness and extent of public-service delivery including housing, electricity and water, have escalated notably in both extent and violence, indicating that this will continue unless the government is able to meet the demands of South Africans (Freedomhouse 2010b). The high unemployment, income inequality, and poor service delivery are expected to generate more protests on a regular basis and they might turn violent. Most unrest will be at a low level, but with the potential to escalate as seen by the protests in 2008-2009. Another potential flare-up is labor unrest and strikes (EIU 2010a). Strike actions from trade unions occurs, and is a symptom of a wider distrust between the ruling ANC and its alliance partners. These tensions within the ANC's own ranks poses a significant risk for investors with regards to labor and social accord and harmony in the country (Venter 2005:42).

Failure to tackle the underlying causes for the protests risks a repeat, or worse, an emergence of inter-ethnic and inter-racial violence between South Africans. There is therefore a risk that the Zuma government will be hauled to the left, implementing radical policies non-conducive for investments, as the underprivileged cannot wait for the future benefits of economic growth to trickle down (EIU 2010a).

Mozambique: Even though the economy in Mozambique is growing, the democratic institutions in Mozambique are not providing socio-economic benefits (Pereira 2009:1). The country has experienced one of the most dramatic declines in poverty the recent decades but remains among the poorest countries in the world, as inequality is increasing (African Development Bank 2008:472). The social tensions that fed into the civil war: socio-economic inequality, an urban-rural divide, developmental disparity between the north and the south, and a tension between the traditionalists and modernists, are therefore still present (Global Insight 2011c:43). The lack of jobs and appalling housing conditions will remain the government's biggest challenge (Karlsen 2010:203). There are no reliable figures on unemployment, but estimates range from 50-80% and the annual inflation rate ranges from between 20% to 35%. 75% of the labor force operates in the informal sector, and only 8% have jobs in the formal labor market (African Development Bank 2008:473).

In 2008, riots broke out in Maputo as a result of a 50% increase in public transport fees, leaving four people dead and more than hundreds injured. In 2010, demonstrations against price rises became violent, with security forces opening fire on the demonstrators, indicating that public demonstrations can turn violent. The protests led to a reinstatement of subsidies and the likelihood of violent protests have increased, as Mozambicans now are aware of the fact that demonstrations is an effective means of pressuring politicians (Freedomhouse 2010c, EIU 2010b). Frelimo's centralization tendencies have had a negative effect on poverty reduction, as there are fewer voices to challenge governmental policies and secure accountability (Astill-Brown & Weimer 2010:8). As the government now is fully committed to the market economy principles, labor unrest is becoming increasingly common. (Global Insight 2011c:40).

4.5.7 Human Rights (Micro Risk)

Zambia: Zambia is given a political rights score of 3[13] and civil liberties score of 4[14] by Freedomhouse (2010a), in total the country is given the status as partly free. The freedom of speech is guaranteed by the constitution, but the government often restricts the right in practice as the government controls the two biggest newspapers and appoints the management board of the state-owned broadcast corporation. The conditions for the independent press deteriorated considerably in 2009, when the government aggressively harassed and interfered with the press opposed to them (Freedomhouse 2010a). Moreover, the government has imposed legal restrictions on the activities of NGOs, indicating a decline in the general freedom in Zambia. Subsequently, Zambia's civil liberties rating changed from 3 to 4 in 2010 (Freedomhouse 2010a), and do therefore constitute a risk for foreign investors that will be further elaborated in chapter 5.

The right to strike is not protected by the Constitution neither are the right to fair labor practices and standards, and the right to collective bargaining. Collective bargaining is provided for in specific labor statutes (Kalula, Ordor & Fenwick 2008:32). Furthermore, the trade unions in Zambia are considered to be among Africa's strongest, and union right are constitutionally guaranteed. The biggest and most influential union, the Zambia Congress of Trade Unions operates democratically without any political interference. Nonetheless, the unions have become weaker both financially and organizationally over the years, and labor militancy is increasing (Freedomhouse 2010a, Global Insight 2011a:47).

South Africa: Freedomhouse (2010b) has given South Africa the status as a free country. On both the political rights and civil liberties score, South Africa is given the rate 2. Freedoms of expression, press, religion, association and peaceful assembly are protected in the constitution and generally respected in practice. In addition, South Africans are free to form, join and participate in independent trade unions (Freedomhouse 2010b). The country's constitution that was adopted in 1996, is one of the most progressive and liberal in the world, as it enshrines a broad range of social and economic rights in addition to the more liberal-oriented civil and political freedoms. Discrimination is banned on the grounds of race, gender, age, and belief, as well as pregnancy, marital status, sexual orientation and culture (Geddes 2010).

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[13] In the Freedomhouse index countries are ranked on a scale of 1-7, with 1 representing the highest level of freedom and 7 representing the lowest level of freedom with regards to political rights (Freedomhouse 2010a).

[14] In the Freedomhouse index countries are ranked on a scale of 1-7, with 1 representing the highest level of freedom and 7 representing the lowest level of freedom with regards to civil liberties (Freedomhouse 2010a).

Moreover, South Africa has an advanced labor standards legislation compared to many developing countries covering aspects such as labor relations, basic conditions of employment, skills development, compensation of occupational diseases, and occupational safety and health.

Mozambique: Mozambique is characterized as partly free according to Freedomhouse (2010c). The country's political rights score is 4 whereas its civil liberty score is 3. In 2010, Mozambique's political rights rating changed from 3 to 4 due to noteworthy irregularities and a lack of transparency related to the registration of candidates and votes in the presidential, legislative and provincial elections in 2009 (Freedomhouse 2010c). Since the country has a generally poor level of education, Mozambicans are unaware of their basic human rights, leading to an extensive abuse of poverty, labor and civil rights (EIU 2010b).

In 2007, Mozambique passed new labor laws introducing progressive reforms that have yet to be effectuated. It provides for individual employment relationships, collective employment relations, dispute resolution procedures, occupational health and safety standards, employment and vocational training, social security, and labor administration. It also covers workers with disabilities, student workers, migrant workers and foreign workers (Kalula et.al 2008:23). Child labor is not an uncommon factor in Mozambique and the government has yet to ratify the International Labor Organization (ILO) on the issue, but there are local laws that govern this (Global Insight 2011c:30).

4.5.8 Human Capital (Micro Risk)

Zambia: Zambia has a young and urbanized population, where about 46% of the population is considered to be active and productive. The country has a profusion of unskilled labor and adequate semi-skilled labor. There is a lack of skilled and professional labor, despite of the fact that the literacy rate in the country is more than 70% (Global Insight 2011a:46), creating a risks for foreign companies in need of a skilled workforce.

The last two decades, the university and technical education system has declined, consequently it does no longer produce local graduates of sufficient quality too meet the domestic demands in the country. Furthermore, obtaining work permits for expatriates can be challenging, as delays are common. In addition, Zambia has a high HIV/AIDS rate of over 15%, but this has decreased, as the rate was 20% a decade ago, in addition to other diseases that are typical for the African region (EIU 2010c).

South Africa: The lack of trained human capital poses a considerable risk for foreign investors in South Africa. The country has a general shortage of skills. This is compounded by the departure of skilled workers to developed countries (Venter 2005:47). The two biggest threats with regards to human capital for foreign investors in South Africa are the extremely high rate of HIV/AIDS infection[15] and the weak educational system. Employing expatriate labor could to some extent reduce shortage of skilled work. However, the obtainment of work permits is also a significant problem, as it is a complex and time-consuming procedure (EIU 2010a). The significant disparity between the highly skilled labor required by investors, and those available on the labor market poses a noteworthy risk for foreign investors.

A Harvard University survey of companies in South Africa has concluded that companies might need to set aside 7.5% of their annual payroll to fund losses by HIV/AIDS (Meridian Group International 2006:4). The education system has not been able to overcome the legacy of poor education from the apartheid rule, despite of being a government priority (Venter 2005:47). South Africa has perhaps the most diversified workforce in Africa, with a large resource-base of skilled, semi-skilled, and unskilled labor. It also has a high literacy rate (85%) compared to other African countries, in addition to internationally renowned universities. However, the South African labor market is characterized by an oversupply of unskilled workers, with most of them finding jobs in the informal sector (Global Insight 2011b:55, 31).

Mozambique: In Mozambique 75% of the labor force works in the informal sector while 17% are unemployed. Only 8% have jobs in the formal labor market (African Development Bank 2008:473). The deadliest disease in Mozambique is malaria and represents a threat to the potential workforce for investors. The incidence rate of HIV/AIDS was estimated at a high 16.2% of the adult population in 2004, expected to be at the same rate. However, there are some regional variations with a decline in the central provinces and an increase in southern Mozambique. Even though the government has introduced anti-retroviral therapy and 50.000 HIV-positive Mozambicans have access to the medicines, 300.000 are in need of treatment (African Development Bank 2008:473).

Another potential risk for investors is to find skilled labor, as the labor force is small. The country has higher illiteracy rates than its regional neighbors. A low skill set indicates

[15] Freedomhouse (2010c) reports that 5,5 million South Africans constituting 11 percent of the population are infected with HIV/AIDS.

that productivity can be low, pushing up the unit labor costs. Furthermore, the country's mega projects have recruited a significant portion of the skilled workforce, further complicating the process of attracting adequate human capital. Expatriates could to some extent fill this, however the obtainment of work permits is a long process (Global Insight 2011c:39, EIU 2010b). The conditions that govern the labor regulations add to the political risk of human capital with regards to the rigid procedures of hiring and firing, and the restriction on foreign workers. Compared to other countries in the sub-Saharan region this raises the cost for business well above those in the region (EIU 2010b).

4.5.9 Energy Dependence (Micro Risk)

Zambia: At present, Zambia is struggling to bridge the gap between demand and supply of energy. The electricity demand is expected to increase from 1.600MW to 3.500MW within the next five years owing to the massive demand for more electricity from mining (Global Insight 2011a:48).

Zambia has a range of energy sources, such as hydropower, coal and forest biomass, and is self-sufficient with the exception of petroleum (REEEP 2010:1). The hydropower potential in Zambia is significant, if fully tapped, it could meet the energy demand of the entire country in addition to provide regional exports. Nonetheless, the country continues to face a number of challenges in realizing this goal. The losses on transmission and distribution have remained high, at an estimated 20%. As a consequence, power supply tends to fall short of peak power demand, even if all the power stations are operating at full capacity (EIU 2010c). Zambia's total energy demand presently surpasses internal generation as a result of the flourishing mining sector. The electricity prices are low, and the main electricity producer is the government-owned ZESCO. There are two other competing operators that are privately financed and operated. The electricity production has increased marginally over the recent years because of the ongoing rehabilitation of power stations (African Development Bank 2008:625, REEEP 2010:3).

Zambia has experienced supply shortages leading to power shortages that have affected production in mining and manufacturing, and an increase in the energy production is therefore crucial (African Development Bank 2008:625). Almost all of the energy comes from the abundant hydropower resources it is endowed with. However, the electricity generation capacity has not increased significantly over the last three decades, and an expansion of the capacity of the existing power plants is expected in the next years.

South Africa: At present, South Africa's total installed electricity capacity is 36.2 GW. The state supplier Eskom produces 96% of the electricity generated. It also owns and operates the national transmission grids. In 2002 it converted into a public company, although it is de facto a parastatal. Increased demand, besides lack of investment in generation, and an outdated distribution infrastructure led to an electricity crisis in 2007, as Eskom suffered from problems of aged plants leading to shortages and power disruptions to residents and businesses in the major cities (REEP 2009a:2, UCLA African Studies Center 2010b). Independent power producers are therefore expected to provide around 1000 MW of the new electricity. However, this will not cover the demand of energy in South Africa. The government is therefore currently covering the deficit by increasing the import of power and by restraining the demand for it (REEEP 2009a:1, African Development Bank 2008:563). The power supply crisis has further hastened the need to diversify Eskom's energy mix and move it towards alternative energy sources such as nuclear power and natural gas, as well as various forms of renewable energy such as hydropower (REEEP 2009a:1). South Africa uses coal, its main energy resource, to generate most of its electricity, and a noteworthy proportion of its liquid fuels. The country has also proved oil reserves for an estimated 15 billion barrels in addition to natural gas reserves (REEEP 2009a:1). It further has a high level of renewable energy potential and currently has in place targets of 10,000 GWh of renewable energy by 2013, where 4700MW is expected to come from hydropower (REEEP 2009a:2).

Electricity continues to be a bottleneck in South Africa. The government is therefore currently working on increasing investments in the power sector and has made it a key priority (EIU 2010a). One-third of the South African population relies on wood fuel to meet their primary energy requirement, and the country continues to experience critical energy crises so the demand for energy will remain high (Global Insight 2011b:57, EIU 2010a).

Mozambique: Electricidade de Mozambique (EDM) is in charge of the electricity generation, transmission and distribution, and Hidroelectrica de Cahora Bassa (HCB), a company jointly owned by Portugal and Mozambique is the largest generator and the main hydroelectric scheme in Southern Africa (REEEP 2009b:3). The total installed electricity capacity of Mozambique is 2.38GW, and hydropower is the dominant source of energy, currently accounting for 99.7% of the total capacity in the country. The government has identified around 100 locations with hydropower potential (REEEP 2009b:1,2).

The energy demand is growing considerably, with an average annual rate around 7-8%. However, the energy sector in Mozambique is currently facing some critical challenges. The electricity supply has not been consistent, and has suffered from blackouts in the energy supply, which has been one of the reasons for the failure of some industries as they are highly constrained by the electricity costs. Additionally, the energy service has been unreliable and available 60-70% of the time, and many businesses and individuals have purchased small fuel generators to meet their demands. This has led to an addition in the investments costs for business and a more polluted environment (REEEP 2009b:1-2).

South Africa is Mozambique's most important trade partner and especially within the energy sector. Most of the electricity that Mozambique generates stems from natural gas from the Inhambane province, and the hydropower plant in Cahora Bassa and exports energy to South Africa who has a crucial lack of access within its own borders (Karlsen 2009:214). South Africa will benefit from 90% of the electricity generated here, with some of it being resold to Mozambique at an increased rate. This has led to frustration as only 4.7% of the Mozambican population has access to electricity (Global Insight 2011c:39). The government's Green Revolution Strategy started in 2007 in response to the high food and fuel prices and was designed to encourage investment in the renewable energy sector. Mozambique is therefore now leading the continent in its clean energy revolution. However, the tension between energy security and food security has fuelled a forceful debate on how to make us of the land in the country (Global Insight 2011c:6, 10).

4.5.10 Environmental Vulnerability (Micro Risk)

Zambia: Zambia has considerable environmental challenges. The key environmental challenges are deforestation, wildlife depletion, and loss of biodiversity and ecosystem services, land degradation, air pollution, poor water management, water pollution and sanitation, and natural disaster risk and climate change (Global Insight 2011a:48 Slunge & Wingqvist 2010:11, 5). The severe effects of climate change are already being felt in the country in forms of agriculture, food security, housing and health. This has severe consequences on the economic, social and environment state of the country (Mudenda 2010:3). As mentioned, Zambia does not have s significant history of social unrest and violence. However, the worsening of the Zambians conditions in relation to environmental degradation could create risks in the future.

South Africa:

"South Africa will become hotter and drier over the interior, agricultural productivity and production patterns will change, and we will see species loss in many areas, including large protected areas such as the Kruger National Park. The impacts to health are frightening. Not only will we face a future with less available water (with consequences for hygiene and health) but many disease-causing organisms, such as malaria – carrying mosquitoes and water-borne pathogens, are likely to expand their territories and further impact on human well-being" (Taylor, quoted in Oxfam International 2009:2).

Climate change is expected to impact the natural systems in an already systematically degraded country. The quotation below does to a great extent sum op the challenges that South Africa will face as a result of these climatic changes. The climate change effects in South Africa, stems to a great extent from external emissions. However, the country itself contributes to this primarily from the coal sector, accounting for over 70% of the county's primary energy, as the government energy policies has provided *"a license to pollute through emissions"* (Oxfam International 2009:2, 14).

The climate changes are expected to worsen existing vulnerabilities in South Africa and add to the pressures on environment and natural resources that many South Africans rely on, with strains on the communities in terms of health, water, food and livelihood, with the already poor communities expected to be hit hardest (Oxfam International 2009: 28, 2). Water management is especially critical, as the lack of water in South Africa is expected to be a time bomb to explode due to the shortage as well as its poor management (Oxfam International 2009:21). In common with many other countries in the region, South Africa suffers from natural hazards such as periodic and prolonged droughts (Global Insight 2011b:58).

Mozambique: Mozambique is vulnerable to natural disasters and has been hit by flooding and cyclones. These natural disasters have profound effects on food security (African Development Bank 2008:472). The country suffered severe setbacks in 2000-2001 when floods affected about 25% of the population. In 2002, a severe drought hit the central and southern parts of the country including areas previously stricken by the flood (BBC 2010b). In addition, the effects of flood damage are exacerbated by the abundance of landmines left after the county's civil war and which can be moved significant distances by the floodwater. Some parts of the country are also prone to earthquakes (Global Insight 2011c:42).

The urgent need for rural electrification has incited much frustration over the construction of mega-projects for electricity generation for Mozambique's neighbours. The hydroelectric dam Cahora Bassa has prompted strong reactions from local campaign groups because its power is transported to South Africa, rather than to the local inhabitants (Global Insight 2011:39). According to a local environmental group the construction of a new dam will affect the fluctuations in the Zambezi River, which further will affect the fish stocks and agriculture. Moreover, it will be constructed in an area prone to earthquakes, so the campaigners are calling for the local population to be sensitized to the risk of dam construction in this area (Global Insight 2011c:39).

4.5.11 Regulatory Framework (Micro Risk)

Zambia: Zambia Development Agency (ZDA) covers the export and investment promotion, and privatization in Zambia. Its task is to promote joint venture partnerships and grant special incentives in order to increase investments into the country (African Development Bank 2008:625). ZDA was created to rationalize the regulatory environment and to simplify business registration, licensing, and inspection procedures for the private sector. However, the excessive regulations related to obtaining permits and licenses continue to constitute a significant political risk for companies operating in Zambia, as regulations can be ambiguous and inconsistent, leading to high operational costs for private companies (Global Advice Network 2010a). However, after the recent reformation of the Zambian legal system, it represents very few barriers to foreign investments except from it being lengthy and time-consuming as a consequence of underfunded staff, lack of resources and processes disposed to corruption (Global Insight 2011a:32-33). Foreign companies are targets from the government's campaign to reduce tax avoidance. This makes them at greater risk of attention from the tax authorities (EIU 2010c).

Zambia has a favorable tax environment. The government has lowered the taxes to attract FDI and to be more competitive. However, the political risk is that the government has to balance the need to raise extra revenue to fund its government spending, with policies that are pro-business to attract FDI. This has led to the discussion of whether it is fair that the average Zambian taxpayer has to bear the burden of the government being too generous towards foreign companies (Global Insight 2011a:38). Presently, this does not constitute a political risk, but it remains to be seen whether the government will absorb the criticism into changes in the tax policies. This has already happened in the mining sector where the corporate tax has been raised with 5% Since the large informal sector remains untaxed, it is expected that foreign companies will continue to occupy a large and increasing proportion of the taxation (Global Insight 2011a:39). The government is presently facing strong pressure to meet its development commitments. However, the likelihood of a considerable tax increase is low, as the government is committed to make Zambia an attractive country for investments (EIU 2010c).

South Africa: The South African economy is developed and complex with an advanced financial system and legislature. These characteristics make the country attractive for investors (Royal Norwegian Embassy South Africa:1 2010). Since 1994, the government has taken measures to increase investments. There are therefore no restrictions to the extent or type of foreign investment. The former president Mbeki followed this marked-friendly policy. However, as Zuma represents ANC's left wing and his support base are the trade union and the ANC youth league, investors have raised concerns on how this will affect the business climate (African Development Bank 2008:567).

In comparison to the regional average, investment companies meet less complicated and costly regulatory requirements related to starting and closing a company, securing property rights, and interaction with tax officials. Dispute settlement and enforcement of commercial contracts is relatively easy and not as costly as in most of the countries in the region (Global Advice Network 2010b). There is also an ongoing effort to continue to reform the legal environment to make it more business-friendly. New legislations have been introduced with regards to land, labor, competition, and company governance in recent years, to meet international best standards (Global Insight 2011b:37).

Moreover, there are no restrictions on foreigners acquiring land in the country. However, land ownership is a controversial issue in the post-apartheid South Africa as the status of ownership is often disputed. Foreign investors should therefore thoroughly investigate the title deeds before acquiring land. The legal system does not discriminate between local and foreign companies and foreign companies have the same access to subsidies and incentive schemes as local firms (Global Insight 2011b:41, 54). In addition, the legal frameworks of BBE exempt foreign companies to meet its requirements, but companies are less competitive for government tenders if they do not meet them (Global Advice Network 2010b).

The tax system is considered as efficient, as regulations and application forms are straightforward for private companies. However, managers in private companies can expect to spend 6% of their time annually on complying with regulatory requirements (Global Advice Network 2010b). The regulations that create challenges are the tax- and labor laws. A company has to comply with 15 different registrations and labor regulations and an affirmative action report has to comply with 14 different requirements (Venter 2005:45). The corporate tax rate in the country now stands at 28% The likelihood that the ANC might increase the taxes on the industry to secure more funds to meet public demands is moderate (Global Insight 2011b:47, Ibtimes 2010).

Mozambique: The inefficient bureaucracy in Mozambique is cited as one of the greatest constraints on business operations. It underperforms in terms of dealing with construction permits, enforcing contracts and registering property, all factors of prevalence for foreign investors (Global Advice Network 2010c). The regulatory burden caused by the excessively complicated procedures related to various licenses, further creates a market for corrupt practices in which public officials often demand facilitation payments (Global Advice Network 2010c). Nevertheless, some improvements have been registered over the years partly as a result from the establishment of the Investment Promotion Centre (CPI), which functions as a *"one-stop shop"* for investors, assisting foreign investors in obtaining all the licenses and permits needed in one place (Global Advice Network 2010c).

The tax authority has currently announced that it intends to gradually raise the level of taxes until they reach 22% of the nations GDP. Presently, the tax revenue constitutes 16,3% of GDP. Tax incentives are provided for certain investment projects (Global Insight 2011c:34). However, with a policy focused on poverty reduction, there could be increases in taxes (EIU 2010b). Furthermore, establishment and ownership are time-consuming and lengthy processes. Land cannot be bought, but leases can be granted for a 50-year period and it may be renewed once (Global Insight 2011c:31).

Overall, Mozambique has shown improvements, and especially related to protecting investors and starting a business Furthermore, the passage of a new labor law in 2007, was another step in easing the business climate for investors. The bill relaxes a number of labor-market rigidities that restrain job creation, and permits a wider range of contracts, including short-term contracts for fixed periods (African Development Bank 2008:469).

4.5.12 Attitudes Toward Foreign Business (Micro Risk)

Zambia: The business climate in Zambia is considered as positive. The creation of ZDA is an indication of this, as the agency is working to provide information on the investment climate and identifying and promoting opportunities for investment (Global Insight 2011a:46). During the last years there has been a growing resentment against small-scale foreign investors. In

2006, this was turned into a major campaign during the elections. As a result, the government announced plans to raise the minimum threshold required to set up business, with a minimum requirement of US$500.000. Although there is no legal discrimination between foreign and domestic investors, the government encourages foreign investors to commit to local participation. However, it is not clear how this commitment is weighed when decisions are made (Global Insight 2011a:46).

The past years MMD in Zambia has downgraded the role of the trade unions and developed a more business-oriented policy. Consequently, the government has been faced with protests and large-scale actions (Lunn et.al 2008:2). The use of many expatriates can lead to opposition and labor unrest. This happened with a major mining company, whose workers threatened to go on strike in response to the company's significant use of foreign workers (EIU 2010c). Furthermore, the leader of the biggest opposition party, Michael Sata, has spoken out against FDI, and recently opposed the privatization of the state communications utility Zamtel. Such sentiments can create a political risk for business if he were to win the elections in 2011 (EIU 2010c). The election is likely to be his best chance of securing power. Should he become president, policies might change, but according to EIU (2010c), this is more likely populist rhetoric. Sata criticized Chinese investments in the country, but were forced to moderate his opinions and is now promising to promote investments if he becomes president. Overall, the biggest threat to foreign investors is his populist policy announcements, as it has the potential to *"whip up"* local unrest (EIU 2010c).

South Africa: Fractions in the ANC alliance are anti-business. This has led to distrust from foreign investors with regards to the political risk of the country (Venter 2005:49). The ANC government has always been sensitive to trade union activism because of COSATU (Venter 2005:41). As the trade unions and the left wings have increased their influence in the ruling alliance, there is a risk that the government will become more interventionist. However, the government is regarded as being business-friendly so the policies towards foreign business are expected to remain accommodating and especially with regard to infrastructure investments such as power since it is a government priority (EIU 2010a). COSATU and the ANC Youth League have urged for nationalization of the mines. The ANC have considered the proposal but will not take any action until 2012. Conversely, nationalization is unlikely given the costs and the harm it might cause on South Africa's reputation as a country supportive of the free markets (Ibtimes 2010). The debate with regards to nationalization is being used by actors opposed to Zuma within the ANC as a way to score political points. This has the potential to intensify if anger increase about Zuma's leadership (Ibtimes 2010). As a result, Zuma might decide to abandon the ANC's market-friendly economic and investment policies succumbing to the criticism in order to appease his labor backers. On the other hand, he has assured status quo to the business community (Global Insight 2011b:13). The balance between private enterprise and the developmental state will remain critical. Provided that the forces can cooperate this need not constitute a risk for investors (EIU 2010a).

Mozambique: The current president in Mozambique is regarded as being positive towards FDI, but is now under pressure to provide the poor with the benefits of tourism and the untapped mineral and energy resources that has drawn the attention of foreign direct investors (BBC 2010b). For this reason the government is working to increase the share of domestic revenue by facilitating FDI to the country and enhance the investment climate of foreign companies (Freedomhouse 2010c). An example of this is the strengthening of the business environment by simplifying the regulatory environment (The Africa Report 2010b). Important revisions have been made of the tax codes governing mining and oil investments and there have also been some reforms of labor regulations to facilitate the business environment (African Development Bank 2008:462). International donors have also put pressure on the Mozambican government to enact another series of liberalizing structural reforms to maintain the country's economic growth and to the benefit of private investors (Freedomhouse 2010c).

Mozambique's leading trade union confederation is independent from the government and has criticized the government's market-based reforms (Freedomhouse 2010c). As the negotiation process with large multinational companies has been a challenge for the Mozambican government, the government has not secured the most favorable terms for the country. This has led to criticism, so the government is now setting tougher conditions for new foreign investment projects (African Development Bank 2008:464).

5.0 RISK MANAGEMENT ANALYSIS FOR SNPA IN ZAMBIA, SOUTH AFRICA & MOZAMBIQUE

5.1 Chapter Introduction

Based on the previous chapters, this chapter's objective is to assess the conditions that enable SNPA to mitigate the high risks in Zambia, South Africa and Mozambique, and thus provide an answer to the research question. This chapter will first analyze SNPA's company capabilities, which according to the literature can influence the company's political risk when Furthermore, based on the risk assessment that took place, this chapter will measure the actual level of the various political risks for SNPA based on the probability and impact of the risks to affect the company's investments. From the risk measurement the political risk factors rated as high will be extracted. Furthermore, this chapter will analyze which of the risk mitigation measures that can reduce the identified high-risks in conjunction with the company's capabilities, and thus be able to provide some answers to the research question.

5.2 SNPA's Company Capabilities

As previously mentioned, the impact and probability of political risk depend on the company's political capabilities and their approach to cope with the political environment. Differences in these capabilities will make the outcome of political risk unequal across companies, and even those in the same sector as *"firms do differ in their responses to political risk"* (Holburn 2001:i, Moon & Lado 2000:85), Four company capabilities were identified. These factors have the prospective to either reduce or increase the company's exposure to political risk. The following section will therefore analyze SNPA's company capabilities in the context of future hydropower investments in Zambia, South Africa and Mozambique.

5.2.1 Nationality of the Company

Norway and the Southern African region have enjoyed good relations since 1960, as Norwegian NGOs and (later) the Norwegian government, supported the countries' struggles for liberation (Eriksen 2000:9). According to Eriksen (2000:9), there is no other country except from Sweden, with such close relations to the liberation movements. These relations have been maintained since. From 2003, the Norwegian government has contributed with over NOK 35 million to support the Coordination Centre of the Southern African Power Pool (SAPP), which aims to implement a competitive electricity market in the Southern African Development Community (SADC). This initiative is part of Norad's Clean Energy for

Development Strategy, and indicates that if nationality is a risk-mitigating factor, SNPA should have viable conditions to invest and manage the risks in this region.

However, according to one of the informants in SNPA (2011a [interview]), being a Norwegian company does not have any considerable significance in the three African countries. Subsequently this will therefore not change the risk exposure of the company when investing in these countries. The foremost reason for this is because the political leaders consider Norway as “harmless”, as Norway does not have an imperial background, and no power to act *“in an imperial manner.”* The informant further stated that Norway is not so highly regarded in Africa, as Norwegians like to think. One of the main reasons for this is that the Norwegian government is known as being moralizers, and with no own opinions as they mainly follow Europe and the United States with regards to foreign policy. In addition, the Norwegian government is known for supporting programs that contribute minimally to actual development in the countries, which reduce their perceived influence in the region (SNPA 2011a [interview]).

Another informant’s perception of the Norwegian nationality as a risk-reducing factor is more positive. Here the impression is that being Norwegian and representing a country known for its democratic culture, and additionally is a significant aid-donor, reduce the company’s political risk (SNPA 2011b [interview]). The impression after starting negotiations with the different host governments was that nationality had a greater significance than previously thought. This was basically due to the Norwegian network already established in the region such as the embassies, Norad and Norfund. Being owned by state-owned entities can therefore be considered as risk mitigating for SNPA, and especially those risks related to government actions. Hence, the exploitation of direct ties with home country officials relative to the host government can provide leverage when investing abroad, and thus reduce the company’s political risk related to host government actions. This is consistent with Henisz & Zelner’s (2002:6) findings, which have specified direct ties as a risk-reducing factor.

Norway is a strong supporter of the United Nations (UN), and has by that, developed a positive international standing and also in Africa. According to one of the interviewees (SNPA 2011a [interview]), this is not just an advantage as the best risk mitigation measure is for a company to be considered as apolitical. Nevertheless, the fact that Norway is a significant aid donor, and especially in Mozambique, can give Norwegian companies leverage, as governments would be inclined to take actions that would make donor countries cut their aid (SNPA 2011a [interview]). Based on this, one can draw the assumption that being a Norwegian company in Zambia, South Africa and Mozambique does have a slightly positive influence on SNPA's ability to mitigate political risks. However, this will depend on what the risks are.

5.2.2 SNPA's Position in the World Industry

According to one informant (SNPA 2011a [interview]), this company capability is the most influential with regard to political risk and subsequently outranks nationality as a risk-mitigating factor. *"SN Power's position in the world industry has always had a significance, in fact it is crucial – and it is independent of nationality"* (SNPA 2011a [interview]). Accordingly, it is not the Norwegian nationality that influences SNPA's company capabilities, but rather the Norwegian location and water resources that has given Norwegian hydropower companies expertise, which again provide them with political leverage when dealing with host governments, as they can export the competence obtained to host countries. The Norwegian hydropower industry has developed to become an *"industrial cluster[16]"*. This concept is what gives SNPA a competitive edge compared to other countries in the hydropower sector, as it is known that companies from this cluster bring about competence, technology and resources (SNPA 2011a [interview]). This can therefore serve to mitigate the political risks that can be created by the governments, as governments in developing countries are aware of the fact that it might be difficult to acquire this competence elsewhere. The Norwegian hydropower industry has over 100 years of experience related to hydropower development. As such, Norwegian hydropower expertise, especially concerning competence and technology, is acknowledged on an international level (St.meld nr14, 2010-2011:38). This recognition might therefore mitigate potential political risks for SNPA, as it is possible to assume that it would be of governments' interest to tap their hydropower resources. In addition, SN Power, which is one of SNPA's owners, has positioned itself as an influential hydropower actor with significant hydropower expertise, as it is the only company in the world that operates exclusively in emerging markets. At present, SN Power has 15 operating hydropower plants, and 10 more in various stages of planning and development in South America, South Asia and South-East Asia (SN Power 2011a, SN Power 2011b). One of SN Power's owners, Statkraft is a state-owned subsidiary, and is the leading renewable energy company in Europe. Being backed by such a strong entity as Statkraft can further provide political leverage and credibility for SNPA when entering into negotiations with the host

[16] Industrial cluster is the notion that the most competent industries evolve in clusters consisting of many small units that competes hard with each other within the same industry (SNPA 2011a [interview]).

governments as well as during their operations in Zambia, South Africa and Mozambique. (SNPA 2011b [interview]), and thus enable SNPA to build upon the competence and the reputation that its owner has acquired over the years. A positive corporate reputation enhances foreign companies bargaining power in at least two ways. A positive reputation is often a sign of the company's sociopolitical legitimacy, which refers to *"the process by which key stakeholders, the general public, key opinion leaders, or government officials accept a venture as appropriate and right, given existing norms and laws"* (Aldrich & Fiol 1994, in Moon & Lado 2000:106). In addition, the host governments might use foreign companies with a positive reputation as a sign of being committed to an attractive business climate (Moon & Lado 2000:106). The latter could therefore be an incentive for the governments in Zambia, South Africa and Mozambique, and thereby reduce the company's political risks.

Norfund[17] is also an owner of SNPA, and its mandate is to take a high-risk in developing countries. As a consequence, SNPA's position in the world industry might be enhanced because it has a strong development finance institution as its owner, which is an obvious advantage compared to other private investment companies. This might also serve to increase SNPA's leverage towards the host governments and thereby reduce potential risks. According to an informant (SNPA 2011a [interview]), Norfund is about to become an even greater success in the regions they invest in. Subsequently, one can draw the assumption that SNPA can capitalize on Norfund's perceived success in the Southern African Region.

5.2.3 Special Bargaining Advantages

Foreign companies with bargaining power are more likely to achieve favorable terms in negotiations with host governments, and also less likely to face government interventions (Moon & Lado 2000:87). SNPA's bargaining advantages are various. Obviously its position in the world industry point toward a bargaining advantage as its parent companies have obtained a solid reputation. Nevertheless, it is difficult to assess SNPA's firm specific bargaining advantages as they have yet to acquire any hydropower plants in the region. However, it is viable to draw the assumption that its bargaining advantages are the same as its parent company SN Power. According to SN Power (2011a) their competitive advantages are that they have a long-term investment strategy, which secures predictability; technical and financial viability; the Norwegian hydropower tradition, with skills and expertise that they

[17] Norfund's objective is "*to contribute equity and other risk capital, extend loans and provide guarantees for the development of sustainable commercial activities in developing countries. Norfund aims to establish viable, profitable activities that would not otherwise be initiated because of the high risk involved. Norfund contributes to reducing poverty and to economic developments in poor countries through investment in profitable enterprises and the transfer of knowledge and technology"* (Norfund 2009:i).

can transfer to the host countries; a multidisciplinary project team and; a proven ability to execute projects in markets regarded as difficult. Their projects in Asia and Latin America are an indication of this. All of these capabilities serve to indicate that SNPA's company capabilities might provide them an advantageous bargaining position, and protection against government actions related to risk outcomes, as it would be of governments own interest to attract these resources in their countries.

Low levels of hydropower technology characterize the African continent, and technology subsequently enhances hydropower companies' bargaining position (UN Water 2008:32). A high level of technological and managerial complexity makes SNPA less exposed to risk from the host government of Zambia, South Africa and Mozambique, as hydropower expertise is needed in order to ensure economic growth, and secure access to capital for infrastructure projects, which the governments cannot finance without private involvement. As stated in the risk assessment, the need for increasing the energy supply in these countries is prevalent. Given the expertise of SNPA it thus has a great bargaining advantage when negotiating with the governments for contracts, as well as during the company's operations. SNPA also has another bargaining advantage: competence with regards to SAPP. According to SN Power (2008:34), the integrated electricity market between South Africa and its neighbors resembles to a great extent to the development and creation of the Nordic interconnected power market and power exchange. This makes SN Power's Norwegian expertise an advantage when dealing with the government, and can therefore enable mitigation of political risks.

In addition, *"unlike many other developers, who depend on obtaining equity or debt financing in the market, we have a strong financial position and can benefit from SN Power's long-term relations with multilateral lenders"* (Stenstadvold in SN Power 2008:34). SN Power is the biggest financial borrower from the IFC, which has a significant position in the African countries as part of the World Bank Group. Being involved with influential multilateral financial institutions mitigates many of the risks related to government intervention as governments would be more inclined towards intervention of companies backed by these. Additionally, it provides financial leverage and sharing of political risks (SNPA 2011a [interview]). Most African countries have adopted policies that are attractive to foreign investors, with the expectation that investments will generate employment and stimulate economic growth by bringing additional capital. The logic of this argument is that foreign companies promote the developmental aspirations of the host government. In practice however, government interventions are almost inevitable (Iroanya 2008:99), in countries where the state plays an influential role with regard to the hydropower resources.

5.2.4 Dealings with Host Government

As seen, SNPA has special bargaining advantages with the probability of giving them favorable terms when signing contracts with the different governments. However, the way SNPA intends to interact with the different governments could also influence their ability to mitigate political risk positively or negatively depending on the approach they undertake. Nonetheless, it is not possible to accurately assess SNPA's dealings with host governments, as they have yet to acquire hydropower projects in these countries. However it is possible to point to some conditions that can enable the management of risk.

An informant (SNPA 2011a [interview]) has affirmed that SNPA's approach in Zambia, South Africa and Mozambique will be to be open and diplomatic toward the governments, but keeping the contact at a minimum, as too much contact can be obstructive for the company, because nurturing contact with governments in countries with questionable governance may lead to negative risk outcomes for the company. He further stated that its dealings with host government will be *"kept at the necessary level"* (SNPA 2011a [interview]). Another informant (SNPA 2011b [interview]) stated that a risk mitigating approach when dealing with host governments is to enter into joint venture partnerships. He pointed that local competence was essential to create a good relationship with the host government, and that both time and resources should be spent to foster this relationship. Hence, this serves to indicate that an indirect contact with the host government through joint ventures might be a viable approach to mitigate political risks.

Based on this, one can draw the assumption that SNPA has the potential to influence the political environment in these countries through its capabilities, and thus have the potential to mitigate the political risks. Nevertheless, the strength of firm-specific capabilities as risk mitigation is moderated by two sets of contextual factors outlined in the theoretical chapter, namely country (macro)- and industry-specific (micro) risks. SNPA's capabilities must therefore further be assessed in the context of these factors in order to provide a comprehensive answer to the research question. This will be the task of section 5.4. The next paragraph will assess the level of risk for SNPA regardless of their company capabilities to enable a fruitful discussion in section 5.4, which will combine both the company's capabilities and the risk mitigation measures identified from the literature.

5.3 Risk Measurement in Zambia, South Africa & Mozambique

The aim of this section is to arrive at a risk level for the various political risks in Zambia, South Africa and Mozambique for SNPA by measuring the macro and micro risks according to the impact/probability chart that was introduced in the theoretical chapter. The factors that are given the rating high-risks will be extracted from this chart, in order to further assess them in relation to the company's capabilities and risk mitigation measures.

5.3.1 Political Stability and Legitimacy (Macro Risk)

One-party domination, within-party dissent, weak oppositions, and public legitimacy issues are what characterize the political environment in Zambia, South Africa and Mozambique. However, at present the political risk for SNPA can be considered as low, owing to the low probability of a fundamental change in the governments policies or any other government action or intervention that could increase the company's political risk, despite of the potential high-risk impact. There are no clear indications that these political characteristics will alter the business environment for the company. Nonetheless, there are some discouraging signs that might increase the risk of this factor in the future. The current governments' legitimacy is declining and could therefore lead to instability due to growing dissatisfaction with the parties' stranglehold of power. One of the most severe consequences of a decline in legitimacy could be political violence, but to constitute a risk it must have an impact on the future operations of SNPA. One potential consequence is the risk of damage or destruction of the hydropower site if violence where to occur. However, this will ultimately depend on where the project is located, and the probability of a hydropower plant to be physically damaged is therefore low. Political violence could however lead to a general disruption of business activities and reputational risks for the company if the violence is to escalate.

Another concern is the risk of expropriation, as infrastructure projects are more prone to this political risk outcome. Host governments have an incentive to expropriate, and that is to maximize the national income. This incentive will depend on the difference between the benefit of attaining income from foreign capital and the opportunity cost of expropriation. The main assumption is that host government may have a short-term benefit by terminating or not complying with the contract. Whether expropriation takes place, it will depend on how the government balances the short-term and medium term benefits of the capital it can get through that particular investment (Ferrari & Rolfini 2008:10). A government with a low probability to remain in power has greater incentives to expropriate and therefore give priority to their short-term gains. This could be a possible outcome if the current governing parties face a political legitimacy or stability crisis. However, the probability of this occurring is low, even though this might increase in the future. Overall, the political risk for SNPA is **LOW**.

5.3.2 Political Effectiveness and Accountability (Macro Risk)

The complicated and rigid bureaucratic procedures, weak institutions, and the corruption in Zambia, South Africa and Mozambique pose significant risks for SNPA, as these type of investments involves a large amount of capital and could create significant financial losses for investments trough delays, lack of policy implementation and structures that will divert the company's attention away from business. The bureaucracies are not independent from political interference, indicates that they do not have the potential to minimize revisions of existing policies if the governments were to change, due to lack of strength or competence to govern without interruptions. Political interference in judicial processes also constitutes a risk as it leads to low accountability and transparency. Lack of political commitment to accountability is the main restrain for a well functioning bureaucracy. This therefore poses a significant political risk for SNPA. The poor public service adds to the expenditures of delivering, generating bad governance, corruption and ineffective public services. This can create a non-conducive environment for the company as it adds unnecessary operational costs (Venter 2005:51). Political interference in the bureaucratic processes is a significant risk, as this raises the probability of government actions such as sudden policy changes, expropriation, and breach of contracts.

The high levels of corruption also constitute a significant risk for SNPA, as the company will be dependent on government contracts such as public procurement contracts in their business conductance. Facilitation payments are also widespread, and might lead to delays and financial losses for the company. Corruption in general distorts the economic environment in which business operates and can also lead to reputational risks if being caught of paying bribes. The most common form of corruption that business encounter is financial corruption in the form of special payment and bribes related to licenses, exchange controls, tax assessments, police protection as well as loans. These types of corruption make it difficult to conduct business, and in some instances can lead to withdrawal or withholding of an investment (Brink 2004:86). Since the political and economic elites have strong ties in these countries, there is a significant risk that SNPA might encounter corruption, mainly due to the fact that infrastructure projects involve a substantial amount of capital and tight contact with the governments. The impact of corruption cannot be overemphasized as it has led to the collapse of several foreign-owned companies in several African countries (Iroanya 2008:108). The political risk for this factor is therefore **HIGH**.

5.3.3 Internal Conflict (Macro Risk)

The ethnic dimension in Zambia and Mozambique is not as pressing as it is in South Africa. Nevertheless, South Africa has stronger institutions and is more democratically consolidated than the two other countries, indicating the same risk level for the countries. Even though there is a high degree of ethnic fractionalization in South Africa, the risk of a violent outbreak is not present. BEE creates a risk for SNPA, as not complying with these regulations might lead to not obtaining contracts, cancellation of them or other policy changes to the detriment of business. In addition, the quotas of affirmative action can create some financial risks because companies might have to employ from the black population were the level of education and skills are lower than in the white population. This might therefore lead to lower productivity for SNPA. The conflict dimension in Mozambique relates more to the urban-rural division in the country, indicating that if this division increases, it would intensify and worsen the relationship between Frelimo and Renamo. Renamo's threat of taken up arms is an indication of this. However, the risk of this actually happening is low, as Mozambique is moving towards democratic consolidation. The no-history-of-unrest in Zambia indicates that internal cohesion will be maintained. Nonetheless, there is a potential threat of industrial unrest as has happened before. This will depend on the company's conduct and labor policies, as the increase of unrest will most likely diminish if the employees are satisfied with their working conditions.

The risk of electoral violence is present in all the three countries, and there are no indications that this will decrease in the near future, as the sources of conflict still are present. However, the risk of affecting hydropower companies such as SNPA is low when assessing this on a micro-level. The potential outcomes of this risk factor are political violence and policy changes that might bring about financial losses due to disruption of business. If political violence were to occur, it could lead to reputational damage for SNPA if being considered as tightly connected to the actors involved the conflict. The potential impact that internal conflict would have on SNPA's potential investments is high. However, there are no signs of internal conflicts that could increase the political risks for the company at this point. Overall, the risk is rated as **LOW**.

5.3.4 External Conflict/Negative Influences of Regional or Other Political Forces (Macro Risk)

At present the regional environment do not pose a political risk for SNPA's potential operations in Zambia, South Africa and Mozambique. This could change if a conflict were to break out in the region. The impact of this could potentially create risks for the company, and especially due to the risk of political violence. However, this is dependent upon whether or not SNPA's hydropower plants are located next to potential volatile borders. Zambia is considered to be vulnerable to attacks by the Congolese militia, and South Africa could face a substantial amount of refugees if the political and economic situation in Zimbabwe were to worsen. This could also be a scenario in Mozambique, but it is not as probable. Nonetheless, the probability of this happening is low. The political risk for this risk factor is therefore considered as **LOW**, but the potential impact of an external conflict is high. However, when assessing on a micro level, the potential for this to affect the political risk of a hydropower project is unlikely, as the risk outcome political violence would most likely not have an impact on the business when it involves external actors.

5.3.5 Security Risk (Macro Risk)

Crime is one of the main constraints on business in Zambia, South Africa and Mozambique, and especially in South Africa. The potential political risk related to crime is obviously representing a threat to the personal safety as well as the safety of property of hydropower investors. In addition, the land mines in Mozambique also constitute a security risk for the company. However, it is difficult to predict the probability of hydropower employees to be affected by this, as crime acts are merely random. Security considerations should be incorporated in the businesses' strategic decision-making process in these countries. Nonetheless, if adequate precautions are made, business is possible, as foreign-owned companies rarely are damaged and foreigners seldom attacked.

The impact and probability security risk would have on hydropower projects can be considered as high due to the severe consequences this might have, as well as the high crime rates in the countries. The overall political risk of security for foreign hydropower investors is therefore **HIGH.**

5.3.6 Socio-Economic Conditions (Macro Risk)

There are three indicators of particular importance with regard to this factor in Zambia, South Africa and Mozambique: the population as a whole is not benefitting from the economic growth in the countries, the governments have not been able create enough jobs, and there has been an increase in the prices of fuel and food. When combined, the potential risk for instability in the countries is high. South Africa is the only country that has experienced an economic stagnation due to the financial crisis, and this might lead to a worsening the population's socio-economic conditions. The socio-economic factors that exacerbates the discontent among the population may result in social unrest, labor strikes, riots and political violence as the anger and dissatisfaction of the public seems to have increased.

In democracies, socio-economic conditions affect the political risk for investors since the government might be inclined to tax private corporations or discriminate against them in various ways to meet the demands of the electorate (Venter 2005:37). President Zuma is already starting to feel the pressure from the left-oriented fractions in ANC, as some of them have urged for the nationalization of the mines. A risk of this occurring is therefore present, even though the likelihood for hydropower companies to be affected by this is low. However, the risk of policy changes, expropriation, breach of contract, and political violence is high since SNPA's operations are development projects. In addition, hydropower investors could face the risk of reputational damage, as SNPA's commitment to sustainable growth and economic development in their projects is a company objective (SN Power 2011a). A failure to do so is a potential pitfall for the company. This will thus depend on who will benefit from the electricity generated, and if it actually will lead to sustainable growth for all. The impact of this risk is considered as high as well as the probability of this risk to materialize. The overall political risk is therefore **HIGH.**

5.3.7 Human Rights (Micro Risk)

The legal restrictions imposed on NGOs' activities in Zambia as well as the increase in labor militancy in the country pose a risk for SNPA. The first one is outside of the company's control, but the latter is possible to mitigate through implementation of labor policies considered as fair for employees. In South Africa, all the formal requirements of human rights protection are met. However, the poor public delivery indicates that enforcement of these rights could also be poor. In Mozambique, abuse of civil and labor rights occur on a frequent basis. Being associated with a government with a poor human rights record could increase substantial reputational risks for companies, especially for development projects such as SNPA. Nonetheless, the general human rights conditions in these countries are only of moderate risk for hydropower investors. However, the risks related to hydropower development, and the potential impact that this can have on people with regards to forced displacement is high. In an overview of all the African dams and their environmental and social impact made by the organization International Rivers (2010), the current hydropower projects in Zambia did not have any displacement issues, except for Lunsemfwa Hydro Power Company (LHPC), who has been entangled in a conflict with the local community living on the banks. LHPC bought the land from Zambia Consolidated Copper Mines, and wants them to relocate as they consider the locals as *"squatting on private land"* (International Rivers 2010). The locals on the other hand, claim that they did not know that the land they lived on were sold to investors. The outcome of this conflict is unknown, but represents issues related to land in Zambia. Additionally, there has been activism with regards to hydropower projects in Mozambique led by NGOs. The plan to construct a new dam along the Zambezi River are likely to bring about more activism, for it is likely to force the resettlement of 1.400 people (Global Insight 2011c:39). Hydropower projects in Mozambique that will have to displace people will therefore create risks for foreign investors. In total, the political risk of human rights is **HIGH**, since both the impact of the reputational risks of forced displacement is high, and the nature of hydropower projects makes it probable to take place.

5.3.8 Human Capital (Micro Risk)

The lack of a skilled and educated work force, exacerbated by the high prevalence of deadly diseases as malaria and HIV/AIDS are the biggest concerns with regard to this risk for SNPA. Especially in the construction phase, the need for competent skills is high. The fact that the countries also have challenges with regard to work permits for expatriates, adds to this element of political risk. Lack of human capital leads to low productivity as it pushes up the unit labor costs of the companies, and subsequently can result in loss in profit and financial productivity for business. All of this indicates that it will be challenging for hydropower companies to find skilled personnel that can install, operate and maintain a hydropower plant. The risk outcome could therefore be financial losses due to low productivity. The potential impact this have on hydropower investments is high, so is the probability of this risk to materialize when SNPA invests in these countries. Hence, the political risk for SNPA is **HIGH**.

5.3.9 Energy Dependence (Micro Risk)

The energy demand in Zambia, South Africa and Mozambique is critical, as the countries continue struggling to bridge the gap between the demand and supply of energy. The supply shortages and poor maintenance of existing power plants have already led to power blackouts in all of the countries due to under-investments in this sector. It is expected that the energy demand will increase in the coming years. In addition, all of the governments seem committed to increase the energy investments. This will therefore create substantial business opportunities for SNPA if the company decides to invest. The potential political risks for hydropower projects in this regard could be policy changes, breach of contracts or even expropriation, as the governments might want to have full control over their natural resources. However, since the energy demand is so critical and the governments have not been able to maintain or construct enough energy plants, there is no risk that this factor could affect SNPA's investments negatively. Nonetheless, there could be some tensions over how to make use of the land and water as the resources are being put under more pressure in the African countries. The balance between energy security and food and water security will therefore be difficult for governments to manage in the future, and will subsequently create more risks for foreign hydropower companies. The overall political risk for this factor is **LOW**.

5.3.10 Environmental Vulnerability (Micro Risk)

Zambia, South Africa and Mozambique are facing environmental challenges. The already vulnerable environments are getting their conditions worsened by the global warming as a result of the climatic changes that is taking place. In addition, all of the countries are prone to natural disasters, and especially droughts, which are critical for hydropower projects as they can result in power shortages and blackouts, leading to a disruption of business activities, and thereby losses in financial productivity. Environmental hazards could lead to a worsening of the social and economic living-conditions of the population due to a decrease in their food security. Subsequently, the risk of social unrest leading to violence might emerge.

Furthermore, many African dams are built today without an examination on how climate change will affect them despite of many existing dams that are plagued by power-shortages caused by droughts (Imhof & Lanza 2010). Nonetheless, the biggest risk with regards to environmental vulnerability, is the risk that hydropower projects can create on their own due to environmental degradation that might occur if not complying to environmental sustainability standards. Legal actions can be taken against SNPA if disregarding environmental regulations. This could ultimately lead to policy changes, possible tax increases or fines to make the company cover the damage they caused (Brink 2004:171). However, this risk is difficult to measure, as SNPA at present, have not acquired any hydropower plants in sub-Saharan Africa. Environmental degradation could create significant risks for hydropower projects as it might result in activism from the local community and NGOs, leading to reputational risks, and possibly, compensation demands. In addition, this could lead to breach of contracts from the governments if the pressure gets high enough, as well as policy changes to the detriment of business. An example of this could be for governments to take control over the company to ensure environmental compliance. However, it is not likely to materialize, as it does not seem as SNPA has any lower environmental standards than the countries they will be involved in. Nevertheless, the potential impact and probability of this risk is high, and consequently, the risk level is **HIGH**.

5.3.11 Regulatory Framework (Micro Risk)

The excessive regulatory environment in Zambia, South Africa and Mozambique does constitute a risk for hydropower investors. In addition, the countries are struggling with maintaining a balance of meeting their development commitments in addition to the promotion of pro-business policies, putting pressure in the regulation of business. In South Africa, complying with the BEE legislation adds the cost of doing business and non-compliance can lead to loss of government contracts. SNPA must therefore expect to spend much time to comply with all the regulatory requirements, and this can lead to losses in financial productivity as it divert attention away from business.

The heavy bureaucracies and rigid laws increase the costs of doing business, and do therefore constitute a risk for hydropower companies. The probability of the risk occurring is high. However, the potential impact this could have on business is low, as there are no signs that the regulatory environment for foreign companies will have negative outcomes on foreign business. Nevertheless, if major policy changes were to materialize, the impact could be high, but it is not expected as all of the countries are currently working to reform the legal environment to make it more business friendly. The political risk for SNPA is therefore rated as **MEDIUM.**

5.3.12 Attitudes toward Foreign Business (Micro Risk)

The attitudes toward foreign business in Zambia, South Africa and Mozambique can in general be regarded as positive. The reforms to make the countries more business-friendly are an indication of this. However, trying to ease the regulatory environment for foreign business has the potential of sparking protests from workers, as witnessed in Zambia. This actually led to a policy change, and implies that governments can change their policies to meet the demands of the population. The protests concerning the use of foreign labor have also been a source of conflict. The likelihood of this constituting a risk for business is only likely to increase if Zambia, South Africa and Mozambique continue to open their economies to foreign investments. Furthermore, anti-foreign sentiments are on the rise, with the opposition in Zambia, within ANC's own tripartite alliance, and a general criticism in Mozambique that the country is not benefitting from the foreign investments. All of the countries appear as being sensitive to trade union activism. If the activism continues or increases, it could create political risks for hydropower projects through government interventions such as policy changes, breach of contract and expropriation. This could have negative consequences for SNPA's activities in these countries. The debate with regards to nationalization of the mines in South Africa is increasing, and if it were to happen, it is not easy to predict if this would spill over to other sectors as well. At this point however, the risk remains low. This risk factor will, like the regulatory risk factor above, depend on how the governments will balance the commitments of the developmental state and a pro-business orientation.

In addition, SNPA's own activities can create anti-business sentiments, but this must be assessed on a project-level when the project is initiated. Overall the political risk of this factor is **MEDIUM,** owing to the fact that the probability of the risk to occur is high, but the general impact is low, as the countries are in need of energy investments, and would therefore most likely be hesitant towards taking actions that would have a negative impact on hydropower investments. Nevertheless this is a risk to watch.

5.3.13 Overview of the High-Risks for SNPA in Zambia, South Africa and Mozambique

The political risk for SNPA's future investments was measured through a categorization of the political risks based on the probability/impact chart introduced in chapter 2, as illustrated below:

PROBABILITY OF RISK	IMPACT OF RISK: Low	IMPACT OF RISK: High
High	**A** Regulatory Framework Attitudes Toward Business	**B** Political Effectiveness & accountability Security Risk Socio-Economic Conditions Human Rights Human Capital Environmental Vulnerability
Low	**C**	**D** Political Stability and Legitimacy Internal Conflict External Conflict/Negative Influences of Regional or Other Political Forces Energy Dependence Attitudes Toward Foreign Business

Figure 4: Categorization of Political Risk Factors in Zambia, South Africa & Mozambique

From the risk measurement, six political risk factors were categorized as high-risk (b): political effectiveness and accountability; security risk; socio-economic conditions; human rights; human capital; and environmental vulnerability. However, as stated in the introduction, both company capabilities and risk mitigation measures have the potential to mitigate the high risks for foreign companies in host governments. The remaining of this chapter aims to analyze whether SNPA's company capabilities and the risk mitigation measures derived from the literature, actually enables SNPA to mitigate its high risks in Zambia, South Africa and Mozambique.

5.4 Risk Response to the High-Risk Political Factors in Zambia, South Africa & Mozambique

Below is a table of the risk mitigation measures identified from the literature that must be analyzed with SNPA's company capabilities to explain the dependent variable; namely risk mitigation.

Table 5.4 Overview of the Risk Mitigation Measures

Risk Sharing and Transfer	**Strategic Relationships**	**Political Risk Policy**
Joint Ventures	National Government	Corporate Values
Project Finance	Local and Provincial Government	TBL
Political Risk Insurance	Local Communities	Contingency Plans
	NGOs	

5.4.1 Political Effectiveness and Accountability

SNPA can mitigate this risk factor in a variety of ways. Joint ventures can significantly decrease SNPA's risk exposure in Zambia, South Africa and Mozambique for a variety of reasons. First, a partnership with either a parastatal or a private company that enjoys a good relationship with the government will reduce the likelihood of government interventions such as policy changes, expropriation and breach of contract. Based on the risk assessment, most of the energy industry in the different countries have not been privatized yet, indicating that a potential joint venture partner for SNPA would be either a state owned corporation or a parastatal. The integration of a national player has therefore the significant benefit that it can increase SNPA's bargaining position, as government interference would have a negative impact on domestic economic interests. This is something that most governments would want to avoid (Bremmer & Keat 200:136). In addition, a domestic company can reduce political risks caused by lack of political effectiveness and accountability by facilitating SNPA's day-to-day dealings, as they better understand the business environment (EIU 2010a), such as how to obtain licenses and permits, negotiation of contracts, interpreting investment regulations, and how to deal with lack of policy implementation (Inkpen & Beamish 1997:81). Both of the informants (SNPA 2011a [interview], SNPA 2011b [interview]), confirmed that joint venture partnership when investing in the sub-Saharan region is going to be SNPA's main strategy, as it is considered as the most effective risk mitigation tool both in relation to dealing with the host government and the local knowledge it provides, and thus are directly connected to SNPA's capabilities. Joint ventures enable SNPA to learn about the business environment in addition of being risk sharing. This measure has therefore the potential to mitigate the political risk for SNPA.

Project finance from multilateral institutions such as the International Monetary Fund (IMF) and the World Bank can reduce the risks of lack of political effectiveness and accountability. According to Doh and Ramamurti (2003:345), the leverage of the World Bank and IMF may have actually increased in developing countries due to the requirements of the institutions to privatize and liberalize as conditions for borrowing. The institutions' success can be measured through the increase in investment liberalization and privatization initiatives in developing countries over the years. The ongoing reforms to improve the business climates are indications of this. The political risk of companies that are backed by these institutions is therefore mitigated, as host government actions would be constrained due to the implications of further funding if creating risks for associated companies. In addition, the backing of influential multilateral institutions could mitigate the risks for SNPA to be entangled in corruption, as governments would be reluctant to demand bribes or facilitation payments in projects where these institutions would be involved. With regards to the political ineffectiveness of the bureaucracies in these countries, the involvement of such institutions might expedite the different policy processes SNPA must undertake to conduct their business (Wang et. al 2004:242). Due to the political risks, cooperation on a project with the World Bank and IMF can also mitigate political risks ex-post, as project finance also has the important risk-sharing function, and thereby reduces the financial burden of the costs of hydropower projects and the political risk outcomes if they were to materialize. Hence one of SNPA's company capabilities can influence this risk factor.

The host governments are often the leading participants in primary energy and energy-related projects in developing countries (Pollio 1998:687). This is the case for Zambia, South

Africa and Mozambique. The establishment of a strategic relationship with the host government is therefore essential for the political risks that can be imposed on the foreign companies. The advantage of nurturing a good relationship with the host government is that it can help to shape the policy environment to the benefit of the company (Boshoff 2010:67). It can mitigate the risks of the company caused by delays, lack of policy implementation, and other bureaucratic procedures that might have an impact on SNPA's business activities. One way to manage these relations could be to sign profit sharing contracts with governments in order for the company to create incentives and benefits in favor of the host government (Bremmer & Keat 2009:138), to avoid negative government actions. SNPA's bargaining advantage thus becomes essential in this regard.

Nurturing a strategic relationship with local and provincial administration has also the potential of being an effective risk mitigation measure. Baldwin (2006:35) claims that political risk in Africa is more about local geography. Conversely, political risk must be dealt with at the local level to be risk mitigating. This relates especially to sub-Saharan Africa where the national states are not homogenous and the local and provincial administration often have another ethnic background than the national government. One informant (SNPA 2011a [interview]) emphasizes a bottom-up approach on political risk. Consequently, pursuing active relations to the different local administrations can mitigate the factors that create a non-conducive business environment for SNPA with regards to political effectiveness and accountability, as it will be easier to navigate the bureaucracy on a local level, in addition of obtaining personal connections.

When investing in countries where corruption is prevalent, having a set of corporate values can serve to mitigate the risks of being involved with corruption. In weak institutional environments, abiding by the rules and regulations may in itself become a manifestation of corporate responsibility (Dobers & Halme 2009:242). As corruption is prevalent in these countries, the probability of natural resource companies to be involved with this practice is high, due to the large sums of money involved, and the frequent and regular interactions with governments (Bray 2003:296). A way to avoid getting entangled with corruption is to comply with the national laws from the home country. Making the company's code of conduct public and complying with it can help to protect a company from this (Bremmer & Keat 2009:193). SNPA should therefore develop clearly defined guidelines for how to deal with corrupt practices in their internal code of conduct. Integrating external regulations such as the UN

Global Compact, which addresses the issue of business corruption in SN Power's code of conduct is a signal that the company will strive to adhere to these guidelines.

Nonetheless, it is not sufficient with a code of conduct and adherence to international guidelines to reduce the risks caused by corruption. Consequently, a TBL approach with an emphasis on transparency to both internal and external reporting should be an integral part of the company's reporting structure (Bremmer & Keat 2009:181). An effective communication to all the potential actors of risk, especially the actors of reputational risk, has the potential to reduce the political risk for SNPA as both transparency and reporting will *"force"* SNPA to publish its finances related to their profits, taxes, and signing of agreements, thereby secure transparency and accountability.

5.4.2 Security Risks

Crime will remain a considerable problem as long as Zambia, South Africa and Mozambique have high poverty and unemployment rates. Companies that aspire for investments in these countries should therefore develop effective measures to deal with the risks caused by the lack of security. One of the most important risk mitigation measures for SNPA will therefore be to obtain risk insurance, as it provides insurance against war and other civil disturbances that might result in financial losses or insecurity (Jakobsen 2004:125-126). Not all companies can obtain risk insurance. As Bray (2003:323) noted, the availability of private insurance cover is often determined based on the definition of a good project: usually a western company with a viable record. As previously discussed, SNPA has good credentials due to their position in the world industry, in addition to SN Power being the biggest borrower with regards to hydropower developments of IFC. The obtainment of risk insurance should therefore be relatively easy for SNPA to acquire. As such, company capabilities might be relevant in this context. In addition, SNPA should draft a contingency plan related to the different crimes in Zambia, South Africa and Mozambique. The advantages of a contingency plan is for companies to be able to manage political and especially security risk at the operational level, protect assets and manage threat levels, and minimize the impact of the political risk to the projects' people and assets (Boshoff 2010:67). The contingency plan could therefore include credible contracted private security companies. It could also consist of necessary security precautions related to general crime as use of electric fences, high walls and installations of alarms. In addition, no-go areas could be included followed by training programs for their staff on how to react when exposed to crime (EIU 2010c), to be an enabling condition for risk management. Notably, SNPA's company capabilities will be of limited utility in this regard.

Moreover, who will protect the company from crime related activities? According to Bernstein (2010:285), local community engagement can reduce different risks for companies. This relates to the *"license to operate"* in a given country and concerns above all developing countries. Often infrastructure and natural resource projects must operate in remote rural locations in developing countries, far from the centers and where even local governments are weak. Here one can expect that law enforcement also will be weak. Enjoying good relations with the local community can give foreign companies security in terms of not be considered as *"foreign*". In this context, maintaining good relations with the local police should also be emphasized (Bernstein 2010:285), as police corruption exists, Good relations could therefore secure police backing if the security of SNPA should be threatened. As there is no risk of terrorism, SNPA should not spend much of their resources to mitigate this insignificant risk. Nevertheless, since the impact is high a general evacuation plan should be drafted for terrorism and other force majeure[18] incidents.

5.4.3 Socio-Economic Conditions

Since the outcomes related to this risk factor are considerable, there are many risk mitigation measures that could be implemented to reduce this factor to an acceptable level. The first risk mitigation measure is to obtain risk insurance, as risk insurance covers government actions such as expropriation, breach of- and renegotiation of contracts, confiscation of property and war or other civil disturbances (Jakobsen 2004:125-126). Risk insurance therefore covers many of the potential risk outcomes that can be created by this factor.

Hydropower projects can create political risks on their own if contributing to deteriorating socio-economic conditions by ignoring social and environmental sustainability standards. Project finance from influential international monetary institutions can therefore also reduce the risk for SNPA in these countries. The World Bank guidelines for investments in developing countries are designated to mitigate social and environmental impacts. Their involvement in hydropower projects in Africa may lead to higher standards being applied and thereby reduce political risk for the investment. In addition these institutions has also a particular focus on supporting investments in Africa (Bray 2003:325), and has an emphasis on economic development and poverty alleviation. As previously mentioned, the involvement of these financial institutions reduces the risk of government actions. Hence project finance serves two important functions with regard to the socio-economic risk for SNPA in these

[18] Force majeures are incidents outside the control of business.

countries, and is thus en enabling condition for the mitigation of this risk, based on both SNPA's company capabilities as well as the risk mitigation measures proposed.

Environment shaping is an essential component of risk management (Bremmer & Keat 2009:32). A strategic relationship with both the national, and local and provincial governments should form an integral part of SNPA's risk management approach in Zambia, South Africa and Mozambique, since the risk of government intervention in the form of policy changes, expropriation or breach of contract is relevant in the context of socio-economic conditions. A way to reduce these risks is to structure contracts that work around the obsolescing bargain and reduce the incentives for government interventions. An example of this could be to sign profit-sharing contracts, which has two advantages related to political risk; protection against nationalization and other forms of government interventions, at the same time as avoiding a debate on the issue of resource nationalism (Bremmer & Keat 2009:138), a debate that is gaining foothold as investments increase in Zambia, South Africa and Mozambique. The ongoing nationalization debate in South Africa is an example of this. By providing benefits for the government both on a national and local level, in form of favorable contracts, the likelihood for government actions to the detriment of SNPA's activities will reduce. At the national level SNPA is able to influence through the capabilities it acquires of being a significant borrower from IFC,

However, the socio-economic conditions in Zambia, South Africa and Mozambique are to such an extent that if not managed properly, could make the governments face internal challenges that would threaten their legitimacy. The governments that face challenges related to legitimacy are among the most likely to resort to expropriation or other means to enhance their nationalist credentials towards the population (Bremmer & Keat 2009:141). There is a relationship between lack of economic growth and expropriation, and as an informant (SNPA 2011a [interview]) argues South Africa has stagnated with regards to economic growth. A good relationship with the national and local government is thus recommended to reduce the incentives for the governments to take any actions that will result in negative outcomes for SNPA. Outlining the company's technical and financial viability could therefore partially serve to reduce this risk, in which the risk outcomes are government actions.

All business, and particular those with a major impact on the physical and social environment, need to recognize that their right to operate derives from the communities in which they operate in addition to the host governments' approval (Bernstein 2010:285). Often, governments promise to take care of community relations when granting foreign companies licenses and permits, but they do not always deliver. Subsequently, companies need to undertake their own consultations, as it is important to provide the local community with a forum where they can address their key social grievances. One of the key requirements when engaging with the local community could thus be to secure the *"informed"* consent of the people that might be affected by SNPA's investments (Bray 2003:317, 312). This can be provided through *"social accommodation"* that responds to the needs of the local community with activities that will enhance their quality of life, as these can create informal channels and reduce risks of government or local community resentment, and could make an enormous difference if local violence erupts (Bremmer & Keat 2009:102). Potential outcomes for local communities could for example be resources for community development by making certain that those impacted by the operation have an equal or even greater level of welfare, income, continuation and security; fairer settlement/compensation for community assets by ensuring relevant assets and skills that can be transformed into sustainable livelihoods for the locals; and improvement of infrastructure capacity (Blowfield & Murray 2008:263). The employment of local workforce during the construction period, and sensitivity with land rights should also form a part of a company's investment strategy. (Bray 2003:318). When establishing in South Africa, SN Power should set out a BEE strategy and this should form a part of the company's corporate values. Absence of such a program can create reputational risks, as well as lead to loss of government contracts (EIU 2010b). Local content policies like this should also be applied in Zambia and Mozambique to secure employment.

A suitable way of managing local community relations could be for SNPA to partner with NGO's to meet the different social demands. By partnering with other social actors, companies can work on the contextual conditions that expose them to political risk (Kytle &Ruggie 2005:12). These types of relationships are implicitly rather than explicitly driven by the capacity of NGOs to do things that business cannot – and vice versa (Waddell 2000:194). According to Waddell (2000:194), this capacity is inherent in the structure as well as orientation that come with being an NGO or a business as two of the three organizational sectors besides government. They all play distinct roles in the society. Collaboration aims to combine the different organizations resources and strengths in order to offset their weaknesses. However, despite some difficulties by these partnerships such different goals, cultures and world-views, business and NGOs collaborations are increasing in number as well as complexity. This is an indication that both parties better understand the rewards of these types of partnerships (Waddell 2000:194).

SNPA's socio-economic commitments in Zambia, South Africa and Mozambique could also be a part of the company's code of conduct. In this way the company can highlight and communicate its principles to all the actors of political risk and collaborate with NGOs, governments and local communities on how to best meet these standards. It is important to note that there is a significant difference between taking the views of shareholders into consideration, and actually being accountable to them in a meaningful way (Blowfield & Murray 2008:224-225). This is because corporate codes of conduct are completely voluntarily for companies (ILO 2011). Enforcement of SNPA's code of conduct should therefore be provided through TBL where transparency and external reporting are guaranteed through SIAs and EIAs that both assesses the potential impact of SNPA's activities before the investment takes place, as well as when the investments are made. Addressing and reporting the different risks through impact assessments will most likely send out a signal to actors of risk about their social responsibility. Social and environmental performance indicators should therefore be developed to enable external reporting and measurability.

The abovementioned risk mitigation measures are integrative and aims to increase foreign companies into the host environment (Brink 2004:156). In addition to these measures, SNPA ought to include the potential consequence of risky socio-economic conditions such as political violence, civil unrest, riots and war in their contingency plan if investing in these countries. An assessment of the potential impact this could have for the company in terms of security, staff attendance and general disruption of business should be conducted (EIU 2010c). Emerging market countries are more vulnerable to unrest. Hence, companies that are doing business in developing countries need credible emergency response plans in place when events outside the company's control materializes, in addition to the integrative techniques that aims to address the root causes of the risks. A contingency plan ought to include of clear management responsibilities and preparation of secure infrastructure. The selection and training of the personnel could also be a part of this (Nodland 2006:25).

5.4.4 Human Rights

The general human rights risk for SNPA is not as prevalent in Zambia, South Africa and Mozambique. Nevertheless, since micro risks often are more rampant for companies, the human rights risk for SNPA should be assessed. This relates especially to securing labor rights to avoid labor strikes and labor militancy of SNPA'a workforce, and popular displacement, which can create reputational risks if not handled in a satisfactory way. There are three elements that explain why displacement marks the public debate around dams; First, it is the extent of human impact as large groups of people often are negatively affected by imposed losses and social disruption; second, in most developing countries the regulation frameworks around this matter are often absent or weak, consequently, it becomes easier to commit human rights violations, and third; under-financing due to underestimation of economic losses caused by displacements, insufficient compensation to the displaced, and a general lack of sensitivity add to the often unbearable burden it is for people to get displaced (Cernea 2004:7). Hence, the potential social impacts are enormous.

With project finance, SNPA can mitigate some of the risks related to human rights by entering into a project finance partnership with the big multilateral institutions. As previously mentioned, project finance from these institutions requires that the company comply to certain regulations on social standards for the project, and thus *"forces"* SNPA to comply with their regulations. The World Bank's hydropower development approach is lessons learned by *"best practices"* to improve the outcomes of the different projects (The World Bank Group 2007:28). Accordingly, the World Bank's Involuntary Resettlement and Indigenous People Policies will be the policy for SNPA to undertake if deciding to invest in these countries. These guidelines include replacement resources, new job training, land-for-land compensation, and other types of income restoration assistance for those that are being displaced (Ledeq & Quintero 2003:7). Stringent guidelines on how to deal with displacement can reduce the reputational risks for SNPA in Zambia, South Africa and Mozambique, and could therefore be applied when investing in these countries. With regards to labor rights, it is not expected that project finance will have a mitigating effect on the potential risk outcomes of poor labor rights and standards.[19] Since one of SNPA's capabilities are closely linked to this, the backing from financial institutions can serve to mitigate the risks this factors poses.

National and local government engagement can contribute to risk mitigation for SNPA by acting as mediators between those affected by their operations: those that will be displaced and the workers. The risks that can be created through popular displacement can be mitigated through consultation and participatory decision-making (Ledec & Quientero 2003:5). In these processes both the national and local community should be involved to secure the best possible outcomes for those that will be replaced. The national government could for instance share the costs of resettlement with SNPA, and the local government must actively be involved in the compensation processes, especially related to land-for-land compensation to ensure same/ or better quality of land. This is of importance in order to mitigate the

[19] I was not able to retreive information with regards to IMF labor standards related to project finance.

reputational risks for SNPA. Often those that are displaced end up being more impoverished than before (International Rivers 2007). Cooperation with the governments can serve to avoid this outcome. By making sure to include the governments in these processes, the chances for the displaced to be satisfied with their compensations might increase. With regards to labor rights and standards, both the national and local governments play a pivotal role to ensure the rights of the workers. SNPA should therefore engage in constructive partnerships with the different governments to enhance labor legislations in these countries. If labor strikes, or labor militancy where to break-out, cooperation with the governments and the different trade unions is likely to be more effective than if SNPA where to deal with this alone.

Those that will be affected by SNPA's activities through displacement should be included in a consultation project where NGOs also can participate. In addition, the displaced are only the most visible victims of dam construction. Many have lost land and homes to the canals, roads and other infrastructure associated with dams (International Rivers 2007). Consequently, it is important to include the local community as a whole and not only those that will be displaced in a consultation process. However, this will represent some challenges for SNPA. An example is who will be entitled to customary land rights and thereby compensation. This is something that is difficult to deal with in a society where land rights often belong to clans rather than individuals. Customary land rights may not be formally registered, but those who believe their land rights have been infringed upon may react violently. This relates especially to African countries where access to land is the most important source of wealth and prestige (Bray 2003:318). SNPA could ensure that it has addressed the concerns of everyone who has an entitlement, and provide compensation to avoid resentments and grievances from the local community to reduce the risks (Bray 2003:318).

The political risk caused by the increase in labor militancy, unrest and strikes in Zambia, South Africa and Mozambique can be mitigated through fostering good relations with the labor unions and other active social organizations in these countries (EIU 2010b). NGOs can integrate business and community goals, and creates and enforces popularly supported standards and codes. (Waddell 2000:195), and can therefore help corporations in mitigating risks that are associated with the businesses' operations. They represent the stakeholders outside of the core corporate structures, thereby enabling SNPA to deal with issues related to human rights (Waddell 2000:194, 196).

In addition to the abovementioned measures, SNPA could integrate their approach to this risk factor in their corporate values and TBL reporting. The company's code of conduct should include how the company intends to manage its relation to those affected by the hydropower construction and to their workers. This could be done through a clear definition of their various rights, and also, how the company will manage potential conflicts with the various stakeholders. In addition, the principles related to human rights in the UN Global Compact should be adhered to. By applying TBL reporting, the company provides both an assessment of the impacts of their business to the potential human rights victims, in addition to a reporting structure that enables the company's external environment to monitor the company's initiatives and activities. Transparency and accountability has therefore the potential to mitigate the company's political risks related to human rights, and as such, is an enabling condition for SNPA to manage this risk factor.

5.4.5 Human Capital

The political risk caused by human capital in Zambia, South Africa and Mozambique is considerable. Nevertheless, there are a variety of ways in which SNPA can reduce the risk created by this factor. The first risk mitigation measure is to enter into joint venture partnerships with domestic companies. As there is a scarcity of skilled human capital, it is reasonable to believe that the most competent personnel already are employed in the different domestic hydropower companies in these countries. The mega-projects in Mozambique have already recruited a substantial portion of the workforce. Subsequently, partnerships with domestic companies enable SNPA to work with the most competent personnel, and the need for significant human capital training will not be as rampant. Joint venture partnerships will also provide the company with local knowledge of the market, which again can increase the productivity. The local knowledge of domestic companies can also serve for SNPA to obtain insight in how to deal with all the diseases that create a shortage of human capital in these countries. Here SNPA can use its capabilities in form of resources and competence to enhance the quality of the workforce, and thus increase productivity and thereby mitigating this risk.

There are also many opportunities to mitigate risks derived from human capital by engaging in strategic relationships with national and local governments, the local community and NGOs. Both at the national and local government level, SNPA can cooperate with the universities, and especially the technical education system to enhance the competence of the graduates, fund the universities, provide scholarships for those who cannot afford a university education, internships etc. In addition, SNPA could engage in a partnership with local NGO's related to job training as well as establishing a variety of programs to reduce HIV/AIDS (Bekefi & Epstein 2006:37) On a local community level, SNPA could partner with the local medical clinic to provide testing and medical treatment to their workers and their families, in addition to funding of medical facilities for the rest of the community.

Corporate values and TBL reporting concerning human capital could also be applied in SNPA's risk management. A detailed training program should therefore be a part of this, and provides SNPA an opportunity to use its technological and managerial capabilities. Moreover, all the companies operating in Zambia, South Africa and Mozambique are in need of a clear policy dealing with the effects of HIV/AIDS and other diseases in the workplace. Important areas that could be included in the policy are absenteeism due to illness or funerals, falling labor productivity as the disease advances in the worker, in addition to death benefits for workers and their families. The most important policy that has the potential to mitigate the risk it is to invest in a country where the HIV/AIDS prevalence is so high, as in the respective countries, will be to cover medical costs. As the public health sectors are weak in the particular countries, much of the medical care is provided through company-run, private insurance schemes (EIU 2010c). SNPA could therefore provide their workers and families with private insurance to secure their health and thereby productivity.

In addition, SNPA could try to mitigate this risk through establishing different programs in their code of conduct related to work place education, condom distribution, voluntary HIV testing, and medical treatment for workers and their families (Bekefi & Epstein 2006:37). The integration of health care facilities in a company's risk management might lead to the following advantages; namely increased productivity and decreased costs of health care and other employee reimbursements. Hence, it should form an integral part of SNPA's risk management approach in Zambia, South Africa and Mozambique (Bekefi & Epstein 2006:40), and all of the initiatives should be reported in TBL to ensure its commitment to mitigate this risk factor.

5.4.6 Environmental Vulnerability

Risk management with regards to environmental vulnerability must be dealt with at two different levels; namely the risk that the company is exposed to, and the risks that the company can create in the context of being a hydropower developer. One of the risk mitigation measures that can be applied here is project finance from financial institutions. The World Bank Group (2007:26-27) has engaged in hydropower for both energy and water security, where the objective has been to address hydropower from a water management perspective in Africa, given the continent's challenges of the multiple demands for water. It also has an emphasis on the risks hydropower developments pose, and especially in relation to the regulations of rivers. By partnering with the World Bank Group, SNPA must comply with the different regulations and guidelines set out in order to secure their finances. Consequently, compliance with all of these regulations has the potential to mitigate some of the risks of environmental vulnerability, since mitigation of environmental impact is one of their main guidelines (Bray 2003:325). Thus one of SNPA's company capabilities namely backing from IFC can become an enabling condition to manage this risk.

The most extreme outcome of environmental vulnerability risk is the risk of social unrest from the population. However, this outcome must be seen in relation to the threats of food- and water security, combined with poverty and environmental degradation. If violence were to break out, risk insurance can cover the potential financial losses of SNPA's activities. Nevertheless, risk insurance must be complemented with other risk mitigation measures. Hence, SNPA could engage with both the national and local government to secure effective risk mitigation. This relates both to the risks created by natural hazards and climate changes (country-level), as well as the environmental risks caused by hydropower projects (project-level). In developing countries, regulation is often weakly developed and poorly enforced (Warhurst 2001:64). In this context, compliance of environmental legislations is in itself a manifestation of companies' commitment to comply with environmental standards. EIAs for instance, place a massive administrative burden for governments struggling to deal with their most basic functions. This has resulted in complaints by political leaders that environmental legislation causes development delays and slows down economic activity (Bernstein 2010:234). The administrative and bureaucratic institutions manage the daily allocation and usage of the water resources among competing users (Meissner 2010). Consequently, SNPA could also engage in a water security dialogue with the government, as resolving this challenge will be based on the participation from governments, business and NGOs, since the water security is declining due to population growth, climatic variability, urbanization, pollution, over-allocation and competing use of the river basins. A constructive partnership both at the local and national level is therefore needed to ensure human and infrastructure capacity to satisfy the water demand (Meissner 2010). In this way, the company can mitigate the risks caused both from country-level- and project-level environmental risks. According to Meissner (2010), companies that operate from a pro-active stance regarding bet water management, have a greater competitive advantage. In addition, this could create goodwill from all the levels of governments. A water management approach could therefore be the emphasis of SNPA to enable reducing environmental risks. Most solutions related to water require a collaborative management (Meissner 2010). Hence, the same approach should be pursued when dealing with both the local community and NGOs in Zambia, South Africa and Mozambique, as it will allow companies to pool resources, expertise and knowledge, which again might lead to an effective water utilization (Meissner 2010).

Business can suffer from reputational risks where water is short in supply and there is a heightened competition between the company and local communities for the resource (Meissner 2010). A commitment to a water management perspective followed by cooperation with the local community can therefore mitigate the reputational risks for SNPA. This can be done through providing skills training and infrastructure maintenance to the ones the company will share the water resources with (Meissner 2010). A NGO partnership could therefore be a fruitful way of approaching this. For a period, the World Bank moved away from funding large dams due to the enormous influence NGOs had, and illustrates how strong NGO activism can be, and also how this can create reputational risks for companies (Bernstein 2010:79). A partnership with different NGOs could therefore mitigate these risks, as well as provide knowledge, and help towards engaging with the local communities.

SNPA's commitment to address the environmental challenges in Zambia, South Africa and Mozambique should be included in the company's code of conduct to mitigate risks. This concerns both the challenges related to climate change and natural hazards in general. In addition, the company should adhere to the environmental guidelines from the UN Global Compact, to add an external guideline component in their business activities. A TBL approach with an emphasis on external reporting will provide the company an incentive to actually comply with the standard they have set out through transparency. This will serve to obtain the trust from all the actors of environmental risks, and has therefore the potential to mitigate the risks for SNPA. The TBL reporting could include targets on how to reduce the project risks of hydropower projects such as measures related to watershed management and other sediment management techniques, environmental rules for contractors, water pollution control, management of water releases, mitigation of water-related diseases, fishing regulations, wild-life rescue, and other environmental measures related to the specific hydropower project (Ledec & Quintero 2003:4-8). With properly implemented mitigation measures, many of the potential negative environmental impacts of hydropower projects can be reduced at acceptable levels. Nonetheless, the single most important environmental mitigation measure would be good site selection by avoiding sites that could have a substantial negative environmental impact (Ledec & Quintero 2003:4-8).

When drafting a contingency plan, SNPA as other hydropower companies, should include emergency response plans on how to handle environmental risks. According to Imhof & Lanza (2010) most of the new African dams are being built with no examination of how the climate changes might impact on them, even though many dams are already suffering from droughts that cause power-shortages. An examination of how the climate changes might impact the company and measures on how the company will mitigate them could therefore be a part of the company's contingency plan, in addition to how to deal with droughts and floods if they cause power-shortages. Emergency response in relation to the risks the company can create should also be included in SNPA's risk management.

6.0 EVALUATION OF FINDINGS

6.1 Chapter Introduction

The previous chapter attempted to provide an answer to the research question. As such, the enabling conditions for SNPA to mitigate its high-risks in Zambia, South Africa and Mozambique was discussed. The aim of this chapter is to evaluate both the company's capabilities and the proposed risk mitigation measures to discuss their potential weaknesses and strengths in relation to SNPA investments in these countries to be able to say something more specific about the conditions that enable risk mitigation for SNPA.

6.2 Evaluation of SNPA's Company Capabilities

As seen, from the previous chapter, SNPA's company capabilities related to nationality, position in the world industry, bargaining advantages, and dealings with host governments are interconnected. As such, they will be evaluated jointly in this section. From the analysis there are several capabilities, which can provide SNPA with the possibility of influencing its political risks in Zambia, South Africa and Mozambique. A further assessment of the specific conditions must be discussed to accurately evaluate the various capabilities.

The capability nationality does not seem to provide SN Power AfriCA with significant leverage so as to have a substantial influence on the company's political risk, as the Norwegian government is considered as harmless, indicating that nationality will not serve to mitigate the company's political risk to a noteworthy extent. The historical ties between the Norwegian government and the southern African liberation movements, Norway's democratic culture, which can provide the host governments with predictability and the country's strong UN position, do not appear as if they can provide the leverage needed when relating to host governments based on the actual risks the company might face. Nevertheless, the Norwegian network already established in the country, is risk-mitigating to the extent that it can work as a facilitator for SN Power AfriCA when establishing in this countries, but does explicitly not affect any of the risk factors.

SNPA's position in the world industry seems to be more influential in terms of being able to manage the political risks in Zambia, South Africa and Mozambique, as it provides the company with both financial and technical viability and industrial competence, which is essential for the African countries to meet their energy demands. In addition, it provides SNPA with a strong corporate brand reputation due to its parent companies, which host governments can use to attract further investments. Hence, this capability is what seems to provide SNPA with some political leverage when dealing with host governments.

Furthermore, SNPA's strongest bargaining advantage is that SN Power is the biggest financial borrower from the IFC, recalling the significant influence The World Bank Groups has in the African countries, this is a condition with the greatest potential to mitigate the political risks for the company, followed by SAPP's similarities with the Nordic power market, which provide them with unique skills, essential for the further integration of the power pool. Based on these capabilities SNPA can to some extent mitigate the risks related to parts of the factors: security risk, socio-economic conditions, human rights, and environmental vulnerability, and based on the analysis, more so with the factors political effectiveness and accountability, and human capital.

SNPA's dealings with the host governments will be further discussed under section 6.3.4, which entails the host government as a risk mitigation measure. The next section will discuss the implications of SNPA's company capabilities in the context of the political risks in Zambia, South Africa and Mozambique.

6.2.1 Implications of SNPA's Company Capabilities

One of the principal challenges foreign companies faces in host countries is how to manage their political interactions with the host governments. This can be done in two ways: The first is to avoid interfering in the politics of the host governments. This is particularly challenging in developing countries where governments often are weak and unstable. The second is for SNPA to recognize the political influence they do have, and then try to wield their responsibility (Bernstein 2010:273). The fact that business can shape its political environment is an indication that the latter is the most relevant. Nevertheless, it is important to note that political capabilities and behavior alone cannot mitigate the political risks foreign companies might be exposed to in Zambia, South Africa and Mozambique. When it comes to political risk for foreign companies, the literature has been focusing on the relationship between the host government and the foreign company when assessing business as political actors. The company capabilities that were outlined in the theoretical chapter, mainly relates to this relationship. However, recalling the assessment and analysis, other political actors can create political risks in these countries as well.

For this reason SNPA's company capabilities might therefore only effectively mitigate the political risks that are created by the host government, and to a lesser degree when dealing with other relevant actors of political risk. Foreign investors are not immune towards expropriation or other types of government interventions, as there is always a risk that African national government will overturn agreements (Baldwin 2006:35), but the risks in Zambia, South Africa and Mozambique also involves other political actors. Hence, a research gap has been identified, and that is what are the company capabilities that can serve to reduce political risks from these political actors such as local governments, NGOS, local community and workers?

As mentioned, local, regional and other political interests often assert themselves towards *"the social license to operate"*. Issues related to this license are often outside of governments' control, which in developing countries often are either absent or ineffective (Garver 2009:82). Hence, it is not sufficient to assess SNPA's company capabilities when conducting a risk management analysis. According to Baldwin (2006:35), traditional political risks created by host governments as nationalization and expropriation have remained static or are in decline, while political risks for investments of non-state actors are increasing. NGOs, militia groups, individual politicians or specific arms of government are all potential threats to foreign investments. Basically, *"African investment is more about local geography as striking a deal with central government"* (Baldwin 2006:35). Hence, company capabilities in relation to other political actors should be identified in order to accurately assess company's risk exposure and their response in terms of risk management. For now, the company capabilities, derived from the literature, can mitigate some of the risks that were identified, and especially related to the factor political effectiveness and accountability, and human capital. It seems evident that company capabilities alone are not an enabling condition to mitigate the identified risks in Zambia, South Africa and Mozambique.

6.3 Evaluation of the Risk Mitigation Measures in the Context of SNPA in Zambia, South Africa and Mozambique

"Investors must…assess each potential safeguard not only with respect to the original hazard that it is intended to mitigate, but also the new risks and costs that it introduces" (Henisz & Zelner 2002:14). The previous chapter analyzed which of the risk mitigation measures that can reduce the high-risks for SNPA in Zambia, South Africa and Mozambique in conjunction with company capabilities. How successful the risk mitigation measures will be depends on the strengths of each of the measures. These have also the potential to create even more risks for the company. This section will therefore discuss the potential implications of the proposed risk mitigation measures, to provide a comprehensive analysis of the conditions that enable risk mitigation for SNPA. Where deemed fit the company's capabilities will be included.

6.3.1 Joint Ventures

Entering into joint ventures are not without risks for SNPA in Zambia, South Africa and Mozambique. As previously mentioned, most of the infrastructure development in developing countries are either controlled by the state or are state-owned entities. The likelihood for SNPA to partner with a company with close links to the government is therefore present. This might pose considerable risks if not taken into consideration. A potential risk is that a partner can expropriate an investment with the support of the government. (Bray 2003:322). This can happen after a shift in SNPA and the partner's bargaining power. Shifts in the balance of power happen when local partners acquire sufficient knowledge and skills, and thereby eliminate the dependency of the foreign company (Inkpen & Beamish 1997:177). Protection of the company's intellectual property should therefore be a part of the company's strategy to mitigate the risk derived from this measure.

Moreover, the involvement of a private partner has also the potential to cause risk for the company, because companies often seek joint venture partners that are well connected and often with personal connections to political actors. This can backfire if the political connections have a reputation for corruption or bad reputation in general (Bray 2003:322). Since the political and economic ties in Zambia, South Africa and Mozambique are interlinked, the risk of corrupt practices increase. This can create reputational risks for SNPA. *"A JV in a country with a poor human rights record, or with a partner that engages in questionable business practices, can burden a firm with enormous public relations problems…"* (Bremmer & Keat 2009:138). Joint ventures also involve significant costs in terms of coordination and reconciling of goals. Hence many partnerships become transitional rather than stable arrangements (Inkpen & Beamish 1997:177), and might not be as sustainable in the long run. As mentioned previously, joint venture is both a protective and integrative tool. Hence, it might be challenging to balance the degree of protectiveness or integration with regards to this measure. What should be given priority?

A way to mitigate the risk created by entering into joint ventures is due diligence on potential partner's financial resources and integrity reputation. If a company enters into partnerships with the government it can gain political leverage through political connections. However, it can become a liability if there is a regime change because having a previous joint venture with a business that is connected to the old regime can increase the risk of expropriation or creeping expropriation from the new regime (Bishoff 2010:67). The success of this risk mitigation measure will therefore depend on selecting the right partner (Bray 2003:322, Bremmer & Keat 2009:138, 101).

Overall, partnering with local firms are valuable in a risk management context, as it can help SNPA to establish credibility with national and local governments, as well as other agents of risks such as trade unions. In addition it can also help to identify the company as legitimate contributors to local development endeavors (Doh & Ramamurti 2003:347-348). Despite of its potential to create risks, it seems riskier to avoid this measure in the context of the local risks in Zambia, South Africa and Mozambique.

6.3.2 Project Finance

There are many advantages with project finance from multilateral financial institutions (Jakobsen 2004:124). However, the controversial role that these institutions have played in sub-Saharan Africa might create some risks of its own. The African continent has experienced a severe debt crisis affecting development in a negative way, and most of the countries have had difficulties servicing their debt owed to these international institutions, which has operated with the concept that only a significant restructuring of the economic and political systems of Africa will save them from total impoverishment (DeLancey 2007:127-128, Gordon 2007:93). The structural reform programs forced African states into a swift and hasty liberalization, which only served to further marginalize the continent, and under these circumstances, economic decline and stagnation continued and continues to mark most of the African states (Gordon 2007:94). Even though it is rational for governments to not intervene in projects where these institutions are involved, the difficulty of balancing between the interests of private enterprise and the developmental state is critical in these countries. The effectiveness of project finance as a risk mitigation measure for SNPA requires that governments behave as rational agents. This is not always the case for governments who often act under bounded rationality or conflicting interests (Boshoff 2010:67). In addition, there are other disadvantages related to this, as project finance deals often are time-consuming, serve to raise financial costs, and add complexity for investment companies. It is therefore not considered as the *"cure"* to effectively manage political risk (Bray 2003:322).

However, for hydropower development, and especially in the African continent, project finance is inevitable, as the continent is considered as a high-risk destination, and infrastructure projects require substantial capital that will be impossible for the company to finance alone. In addition, project finance from these institutions will make it easier for the company to secure additional contributions from other banks (Bray 2003:346). The potential risks related to project finance is therefore outweighed by the advantages.

6.3.3 Political Risk Insurance

As Africa is regarded as a region of high political risk, equity investors, lenders and insurers therefore demand significant risk premiums to finance projects. Political risk insurance can thus strengthen a company's position towards these actors (World Economic Forum 2010:10, Bremmer & Keat 2009:102). Political risk insurance can be an effective risk mitigation measure, the problem however is that it does not cover all aspects of political risk and must therefore be complemented with other risk mitigation measures, as it is merely a safety net and not a solution, and it can also be very expensive for companies. In addition it mainly covers state-level risk and not political risk on the local level or from political actors (Boshoff 2010:67), which are prevalent risks in Zambia, South Africa and Mozambique. Reputational risk and public relations caused by campaigns from NGOs are not covered by political risk insurance and by that represents a weakness of this risk management measure, as this is a significant risk for hydropower companies in these countries.

Public insurance, and especially the insurance offered by the World Bank (MIGA) has the potential to mitigate the risks for SNPA for the same reasons as project finance, stemming from the notion that host countries most likely will be reluctant to antagonize the World Bank by threatening projects sponsored by MIGA. Throughout MIGA's history, there has only been one claim to them. In other occasions, MIGA has had the role as a mediator between its clients and host countries to resolve problems that might have led to claims. Moreover, MIGA promotes collaboration with private insurers[20], and private insurers are usually more willing to insure projects if MIGA is involved (Bray 2003:324). In addition, MIGA always conduct due diligence of the political environment of projects that wants to be insured. Subsequently, by obtaining risk insurance, many of the risks has already been identified and mitigated before underwriting (Bekefi & Epstein 2006:36). It has now been generally accepted that public sector insurance has an important role to play to supplement the inadequate capacity of the private market on risk insurance. This is particularly important in the insurance for projects in developing countries that are considered as high risk where some of the private risk insurance companies have been unwilling to cover companies operating in risky regions (Bray 2003:324).

[20] Private political risk insurance can be obtained by for example AIG Global Trade and Political Risk Insurance Company, Meridian Finance Group, and Marsh Private Equity Mergers and Acquisition Services, all insurance companies that are well known and reputable (Brink 2004:164).

The weakness of risk insurance is that it does not address the root causes of political risks, and has therefore only an ex-ante and protective function. Even though risk insurance has its inherent limitations, political risk insurance is still the most common form of risk mitigation (Brink 2004:163), and is therefore one of the conditions that will enable SNPA to mitigate its high political risks.

6.3.4 The National Government

To understand how engaging in a strategic relationship with the government can pose risk for foreign investment companies, one must understand the conflicting role of the host governments that are related to infrastructure projects. Host governments are sponsors/investors, consumers/costumers, rule-makers/regulators and mediators/moderators of political opposition and NGOs. In this sense, the national governments serve as both a source of risk and an absorber of risk (Doh & Ramamurti 2003:340).

The most problematic aspect for SNPA in Zambia, South Africa and Mozambique is the high levels of corruption due to the strong tie between the economic and political elites. For SNPA it is essential to point out that their commitment will be to the countries and not to the different governments or individuals who happens to be in power if deciding to acquire hydropower plants in either of the countries. As with many governments in developing countries, these countries governments are governed out of personal interests, or more precisely, the governing party's interests. Hence, there might be no concept of the national interest, and in particular, long-term national interest, because the governments might be more inclined towards quick returns and personal benefits (Bray 2003:316). SNPA's dealings with host governments do therefore constitute a risk for the company: Being too tightly connected to the government can create reputational risks and SNPA can be more prone to corruption. However, not nurturing a relationship in governments where strong personal and party rules dominate can also be obstructive for the company.

In addition, SNPA's dilemma related to their relationship with the different host governments will be compounded if the governments fail in distributing the revenues that are derived from the company's operations (Bray 2003:316), not to mention the reputational risks the company could face from NGOs. If revenue distribution in the countries is perceived to be unfair, the companies can be blamed (Bray 2003:316), and especially those that are directly related to development, such as hydropower. Another implication related to this is that SNPA will never be able to fully control the relationships with host governments, as they depend on many externalities and the mere fact that the interests of the host government and the foreign company might not always align (Boshoff 2010:67). The combination of big, enduring and specific assets, obsolescing bargaining, and highly politicized consumption- such as hydropower projects and energy development respectively, makes hydropower companies especially vulnerable to expropriation and other forms of government interventions.

"Because a large proportion of utilities' assets are sunk, governments are able to substantially reduce utilities' financial returns ex post, knowing that they will continue to operate as long as their marginal costs are covered" (Holburn 2001:15-16).

Governments have therefore an incentive to expropriate or intervene in order to meet the short-term demands from domestic constituents (Holburn 2001:16). The relationship between the national government and SNPA must also be seen in the context of the company's company capabilities. As concluded, SNPA has some bargaining advantages that might mitigate the likelihood of government interventions or action to their detriment. Nevertheless, as Zambia, South Africa and Mozambique are fairly democratic countries, this will ultimately depend on the demands of the domestic constituents in these countries, and the way the governments balance these interests. Despite of the inherent risks related to engaging with host governments, it is not possible to operate in a country without the governments' consents. Subsequently, a constructive engagement should therefore be encouraged.

6.3.5. Provincial and Local Administration

It is often the national government that are the main boosters for FDI, but local and regional administrations have also the same incentives to encourage investments in their regions. Strategic engagement with local and provincial administration can therefore create both risks and opportunities for SNPA. According to Bremmer & Keat (2009:153), local officials often expect that FDI directly will benefit them and their political allies. Due to the high corruption rates in Zambia, South Africa and Mozambique, this can become challenging for foreign investors, as a failure to understand the various expectations of local officials, can lead to problems for foreign companies. National officials might at times intervene on investors' behalf, but in many cases they choose to side with the local governments (Bremmer & Keat 2009:153). Moreover, local and regional administrations often argue that they do not benefit from investments in their territories. This can strain the relationship between the national government and local administrations and the relationship between the local governments and the company (Bray 2003:316).

Another dimension of risk is the relationship between the national and regional administration, which can affect SNPA if they have diverging interests. This is especially the case when different ethnic groups dominate national and local governments with different political interests (Bray 2003:316). This risk is most prevalent in South Africa, where the legacy of apartheid still is present, and where there has been hostility between the different ethnic groups, which again is manifested through the political parties. Political contestation between the different ethnic groups has also been a feature in Zambia, indicating that this could create some risks and challenges for SNPA if deciding to operate in these countries. The conflict dimension in Mozambique has been the rural-urban division, which has created a tense political climate. For these reasons, the relationship between the local government in which SNPA decides to invest, and the national government should be thoroughly assessed before the investments are made. Furthermore, another element of risk is elections at the local level. When local governments change, new political leaders with different attitudes than their forerunners might be empowered. Their attitudes towards foreign investments will therefore lay the basis for foreign companies local investment climate (Bremmer & Keat 2009:153).

Despite of the possible risks for SNPA when engaging with local and provincial administrations, business must relate to these administrations, and especially in Africa where political risk is more about the social license to operate, and local conditions than national politics. This was also confirmed by one of the informants as the most viable approach to mitigate risks (SNPA 2011a [interview]). Consequently, the company's company capabilities are expected to decrease in significance at the local level since local governments need not take national implications into consideration because of their local orientation.

6.3.6 Local Communities

The management of the company's relationship with the local community is crucial to mitigate, as mistakes made in this relationship might never be fixed (Bray 2003:312). The social license to operate from the local community has been stressed as the most important factor when establishing hydropower operations (SNPA 2011a [interview]). Yet, engaging in strategic relations with the local community brings about significant challenges for foreign companies. The primary challenge is to identify clear negotiations partners within the community (Bray 2003:317). Involving NGOs, local administrations and local trade unions can help to identify whom to undertake consultations with, and thereby mitigate the risks that can be created from the local communities.

In developing countries such as Zambia, South Africa and Mozambique, the national and local governments do not always deliver basic social services to their population as mentioned. The local communities may therefore look to companies to fulfill some of government's functions, as for example the provision of schools and medical care. This can in itself create problems, as companies' expertise does not cover to serve as development agencies. In addition, if the local community's expectations are either unrealistic or the company is unwilling to meet the communities' demands, they may at worst, resort to force to demand what they consider as their rights (Bray 2003:317), or engage in other actions that can cause reputational damage for SNPA. Another risk implication is that local community relations require careful planning and a significant amount of time for the management to ensure a project-specific approach that actually can be effective to mitigate political risks. The failure to successfully plan for local community projects can actually increase political risk if the projects cause discontent among the local population if not addressing their demands properly (Bishoff 2010:67). A partnership with NGOs that can provide local knowledge can therefore help SNPA to address the local community's demands. The most important thing foreign investment companies' can do to mitigate the risks from the local community, is to ensure that it has addressed the concerns of the ones with a genuine entitlement. Securing the informed consent of the people and ensure compensation for those affected by the investment are therefore essential (Bray 2003:318, 312).

6.3.7 Non-Governmental Organizations

The relationships between companies and NGOs remain diverse and multifaceted, where both sides often demonstrate a deep distrust of the other. Many NGOs argue that a formal relationship with companies can compromise their independence and are therefore reluctant to engage in a constructive partnership. However, over the years there has been a greater interest in engagement and even in partnership (Bray 2003:321) To mitigate risks, it is essential to have a strategic relationship with NGOs, and especially those at the local level that can help foreign companies to address issues related to the local community. The risk related to NGO partnership, is the same as with local community relations; if the partnership fails, the risks for the company might even increase than if not engaging with NGOs from the onset. It is also important for the company to ensure that the selected NGO partners have a strong grass root support and that they can provide their services effectively.

The challenges related to engaging NGOs as strategic partners, are among others to identify *"the key drivers"* of the NGOs, and whether they complement or contradict the company's objectives (Warhurst 2001:71). Business-NGO partnerships are particularly complex because the different sectors have dissimilar objectives, cultures and worldviews. These discrepancies can therefore complicate the communication process. For SNPA to efficiently tap the rewards, the distinct role between the company and NGOs must be understood (Waddell 2000:194). Furthermore, if companies select the wrong partner, they risk waste their resources. A successful NGO partnership depends on the NGO to maintain a clear accountability to its own stakeholders, and that is not always the case (Cowe 2004). A partnership with NGOs can improve the contextual conditions that create risks for the company in the first place. Hence, regardless of the political risk, this type of partnership is the best way for the company to gain knowledge about the social expectations in the host countries, better connection with the actors of risk, as well as a smarter allocation of the resources to local community programs. Partnerships are a high-risk mitigation measure, but the advantages and mutual benefits are believed to outweigh the risks involved (Kytle & Ruggie 2005:12, Jamali & Keshishian 2009:280). Subsequently, SNPA could engage with local NGOs in order to mitigate their potential risks by allowing them to assist in the implementation of suitable risk management so as to anticipate future risks. Business is in need of NGOs, as they can bring knowledge, expertise, credibility and reputational gains (Kytle & Ruggie 2005:12, Cowe 2006), in spite of the risks they can generate.

6.3.8 Corporate Values

The establishment of corporate values and principles to mitigate political risks is a necessity for investment companies (Nodland 2006:23). Nevertheless, there are many challenges related to this, some of them with the potential to create even more risks for SNPA as: *"Fine words are not enough"*. Companies must also actually live up to the standards that are outlined in the company's corporate values guidelines (Nodland 2006:24). This relates both to the company's internal code of conduct as well as compliance to their external regulations. A failure to do so can create political risks by those affected by the company's conductance. SNPA could therefore ensure that employees, joint venture partners and even their supply chain are educated to adhere to these guidelines. The spread of voluntary guidelines has led to a debate on their merits versus regulation. NGOs have expressed their concerns over the lack of formal regulations for companies and that there is no reason to trust companies' commitment to guidelines as they function as an easy alibi with no real pressure for compliance. Code of conducts depends on credibility, which in turn depends on monitoring, enforcement and transparency. Transparency in itself can mitigate risks for SNPA, as it is useful for companies to have an alibi when facing the threat of corruption (Bray 2003:305, 332, ILO 2011). This can in itself create a risk for SNPA as the company might lose business opportunities for not accepting bribes, kickback or the request for facilitation payments.

Nevertheless, the risk of engaging in corrupt practices remains more prevalent. The key challenge for SNPA related to corporate values, is to translate these principles and guidelines into practical strategies at the project level, and also to implement them with the capacities and resources available for the company (Warhurst 2001:69). It will not be sufficient to simply state compliance. The company needs to actually comply with the guidelines to appease the different actors of risk.

6.3.9 TBL

SIAs and EIAs are procedures that can evaluate SNPA's compliance with the political risk management guidelines and should therefore be an integral part in a company's risk management (PwC 2006:29). A lack of a clear reporting structure can in itself transform into political, reputational and regulatory risks. The importance of transparency and reporting in the companies' business activities should therefore not be underestimated (Bremmer & Keat 2009:181). However, there are some challenges related to TBL reporting; the first is the problem of what to measure. The second challenge relates to the question of whose interests it is to understand the concept impact (Blowfield & Murray 2008:330-331). Third, how will the company answer to the range of interests and concerns that exists within the company's political environment? The balancing of these sometimes competing interests can make it difficult for the company to make purposeful decisions (Bernstein 2010:31). Nevertheless, successful management of political risk is predicated upon an effective communication both within the company and with external stakeholders. This should be done through providing information about the company's approach to risk, how it defines political risk, potential consequences if the risks are not mitigated, in addition to the means of reporting the different risks. The internal communication should include training, communication via the company's intranet, and be a part of the company manuals. Furthermore, an internal reporting mechanism should be established for employees to report on different risks (Bekefi & Epstein 2006:39).

Although external reporting is not mandatory, SNPA should still report externally, and if so, to whom and how extensively? External risk reporting should be subject to a cost-benefit analysis, as this also can create some risks for the company. SNPA should therefore think about the competitive disadvantage from disclosing information and the bargaining disadvantage from the disclosure to suppliers and employees (Bekefi & Epstein 2006:41). The extent of external reporting must therefore be balanced in a way so that SNPA can satisfy the potential actors of risks without experiencing a competitive disadvantage that might result in financial losses for the company. The costs of monitoring, of who should do the audits, what they should focus on, and how often, are issues for SNPA to consider when implementing TBL reporting (Bernstein 2010:67). Despite of the possible challenges and weaknesses of this risk mitigation measure, TBL, which takes into account all of the concerns of the relevant stakeholders, might reduce the political risks that can be created by them.

6.3.10 Contingency Plans

Contingency plans do not pose a direct risk for companies. However, a failure to prepare for emergencies can result in considerable financial losses for a company, as contingency plans contains emergency response plans on force majeure[21] issues (Wang et. al 2004:241). On a general basis, emerging market countries are more vulnerable than rich world countries to civil unrest and environmental disasters (Bremmer 2011) A contingency plan is therefore a prerequisite for companies that invest in countries with high crime rates, political and socio-economic conditions that might lead to social unrest and political violence, and countries that are vulnerable towards natural hazards for instance drought and floods such as Zambia, South Africa and Mozambique. Another implication with regards to this measure is that contingency plans add to the company's expenses and time for training of the personnel. Nevertheless, in some countries, they are essential and must be an essential part of the company's risk management (Bremmer 2011:194). Furthermore, the disadvantage of a contingency plan is that it for the most part is a protective measure and therefore provides a limited ability to address the root causes of the political risks in the company's business environment (Boshoff 2010:67). Contingency plans should therefore be implemented in SNPA's risk management as long as it is combined with measures that address the root causes of the different risks.

6.4 What are the Conditions that Enable SNPA to manage its High-Risks in Zambia, South Africa & Mozambique?

The main findings of the analysis will be summarized in the tables below. The first table will sum of the most important company capabilities of SNPA in the context of investments in Zambia, South Africa and Mozambique. The second table sums up the high-risks that can me mitigated by virtue of SNPA's capabilities, and the third table summarizes which of the risk mitigation measures that can address the high-risks identified:

[21] : *"The circumstance that are out of the control of both foreign and local partners, such as flood, fires, storms, epidemic diseases, war, hostilities and embargo"* (Wang et. al 2004:241).

Table 6.4a SNPA's Company Capabilities

Strong brand reputation and financial support from the parent companies SN Power, Statkraft & Norfund
Technical and financial viability
Skills and expertise
Financial and political backing from IFC & Compliance on social and environmental standards
Joint venture orientation

Table 6.4b What Political Risks do SNPA's Company Capabilities address?

	Political Effectiveness & Accountability	Security Risk	Socio-Economic Conditions	Human Rights	Human Capital	Environmental Vulnerability
SNPA's Company Capabilities	X	(X)	(X)	(X)	X	(X)

The analysis indicates that SNPA's company capabilities can explicitly manage some of the high-risks in Zambia, South Africa and Mozambique through its strongest bargaining advantage; the backing from the IFC. As such, SNPA's company capability mainly relates to project finance from these institutions and its function as a risk mitigating measure. With regards to the risk factor political effectiveness & accountability, being backed by heavy financial institutions can speed up the various processes in the bureaucracies, reduce the chances of being involved in corrupt practices, and is risk sharing in form of providing capital and share the costs of a hydropower project. Since political interference in the bureaucracies occurs regularly in Zambia, South Africa and Mozambique, this bargaining advantage reduces the chances of risk outcomes stemming from government actions such as expropriation, breach of contract and other policy changes to the detriment of SNPA, as governments would be more hesitant of intervening in projects where these actors are involved. Regarding security risk, SNPA's company capabilities only becomes significant when obtaining risk insurance, which is easier when a company already is in the system of the World Bank Group.

With regards to socio-economic conditions, human rights and environmental vulnerability the various guidelines from the World Bank related to social and environmental considerations are mitigating to some extent, since SNPA must comply to these guidelines in order to secure funding, but it is difficult to say anything specific about its risk mitigating function. However, it is not expected that this will have any significant importance on influencing the company's political risks. It is not directly related to SNPA's capabilities as project finance's function, as risk mitigation measures mainly relates to these institutions capabilities and not SNPA's per se. Consequently, it is partly an enabling condition for risk management. SNPA's capabilities in form of their industrial competence and technology can mitigate the risks related to human capital, as they can provide the necessary training to increase the competence of the local workforce, and thereby reduce the risks related to incompetence and thus, productivity. For the general risk of government actions, and seeing the political risks factors jointly, a strong corporate brand reputation and the company's commitment to joint ventures could have an overall risk mitigating effect.

Taken as a whole, this analysis concludes that the identified company capabilities alone cannot mitigate the high-political risks in Zambia, South Africa and Mozambique, and that the concept of company capabilities needs to be broadened in relation to other political actors in the literature of political risk, and especially with regards to African countries with the same characteristics as Zambia, South Africa and Mozambique. This is because the main political risks stems from the local level in these countries. However, it is important to note that it is the governments that are the wielders of power in the host countries, and that they ultimately decide whether one are *"welcome"* in the country or not. The function they also serve as mediators between business and civil society indicates that they can exert to negative government actions if the remaining political actors are not satisfied with the way SNPA conducts its business. This will especially relate to (weak) democratic countries such as Zambia, South Africa and Mozambique. Furthermore, the proposed risk mitigation measures have also shown their appropriateness in mitigating the high-risks in Zambia, South Africa and Mozambique. A summary of the findings of the analysis and evaluation is illustrated in the table below:

Table 6.4c What Political Risks do the Risk Mitigation Measures Address?

	Political Effectiveness & Accountability	Security Risk	Socio-Economic Conditions	Human Rights	Human Capital	Environmental Vulnerability
Joint ventures	X				X	
Project Finance	X		X	X		X
Risk Insurance		X	X			X
National	X		X	X	X	X

government						
Local & provincial administration	X		X	X	X	X
Local communities		X	X	X	X	X
NGOs			X	X	X	X
Corporate Values	X		X	X	X	X
TBL	X		X	X	X	X
Contingency plans		X	X		X	X

As can be viewed from the table, the different risk factors have more than three risk mitigation measures that address them. In fact, most of the risk factors have six or more risk mitigation measures that can be applied, indicating the relevance of these tools to mitigate the political risks in Zambia, South Africa and Mozambique. All of the proposed risk mitigation measures do therefore address the various political risks for SNPA in Zambia, South Africa and Mozambique. However, the degree of how well the risks are addressed varies, and in some instances, the measures even create new risks for the company, which serve to weaken their strength as risk mitigating measures. Nevertheless, a combination of SNPA's company capabilities and these risk mitigation measures seems to be enabling conditions for the company to mitigate some of its high-risks, but SNPAs company capabilities on a local level should be assessed in order to provide more comprehensive answers to the research question. As such, these tables provide a summary of the answer to the research question.

However, since this analytical framework has not been tested in practice, it is difficult to say anything specific about its utility in actually reducing the high risks in Zambia, South Africa and Mozambique, namely: political effectiveness and accountability, security risk, socio-economic conditions, human rights, human capital and environmental vulnerability. Nonetheless, the objective of this research study was to analyze the conditions that enable SNPA to mitigate its high-risks in Zambia, South Africa and Mozambique. The findings provided, answer the research question that was posed, and should be further studied to produce more valid inferences.

7.0 CONCLUDING REMARKS

7.1 Summary of the Research Study

The purpose of this study was to analyze the conditions that enable hydropower companies to manage the high political risks in the African continent. This was done by making use of the Norwegian hydropower company SNPA, which is currently exploring for investment opportunities in Zambia, South Africa and Mozambique. First, an analytical approach was developed to facilitate an analysis derived from the political risk literature, with an emphasis of making it relevant in the African context as well as the industry. This was followed by an empirical assessment to lay the basis for the analysis. To enable an analysis, the capabilities of the company was analyzed before an assessment of the probability and impact of the identified political risks was made, to extract the variables deemed as high-risk for the company in these countries. The political risks rated as high was then analyzed in the context of the company's capabilities as well as risk mitigation measures identified from the theoretical literature, in order to detect what the conditions that enable SNPA to mitigate its high-risks are.

7.2 Theoretical, Methodological & Practical Implications

Since PRA is more of a systematic approach than an actual theory, it has been proved challenging to conceptualize, identify and assess the concept of political risk and political risk management. In addition, it is difficult to accurately forecast the political risk for companies as the political environment is characterized by unpredictability. Forecasts are therefore based on probabilities. Nevertheless, since a systematic approach at least enables comparisons between countries, the study can be said to have moved towards theory building because the literature on political risk has yet to develop a theory on hydropower investments in the sub-Saharan continent, and as such, a research gap was identified and explored with this thesis.

A PRA is ultimately subject to human judgment. It is therefore recognized that I might have overemphasized and/or ignored some factors, contextual conditions, company capabilities, risk mitigation measures, or other subjects relevant to this study. Nevertheless, I have attempted to balance my subjectivity by providing a variety of sources in both developing the analytical framework and the analysis of the political risks in Zambia, South Africa and Mozambique. It is therefore trusted that potential biases might have been reduced.

The practical implication with regards to this study is the actual implementation of a risk management for investment companies, but also for a research purpose. Since there are many risks, it will become challenging to balance all of the risks, yet alone identify them to accurately forecast their potential implications for companies. The success of the company's capabilities and risk mitigation measures, and especially the latter, will also be determined by their intensity, which also constitute a challenge, since it will be difficult to accurately assess to which degree a risk mitigation measure should be implemented to effectively mitigate political risks. Nevertheless, all of the potential implications related to this research study have been thoroughly discussed. However, I do recognize that I might have overlooked some implications that could be of relevance.

7.3 Answering the Research Question

The research question that the research study aimed to answer was: *What are the conditions that enable SNPA to manage the high political risks in Zambia, South Africa and Mozambique?*

The research question was answered through developing an analytical approach in which the relevant risks for hydropower investors in sub-Saharan Africa was identified. The political risks that were rated as high were the macro risks; political effectiveness and accountability, security risks, socio-economic conditions, and the micro risks; human rights, human capital and environmental vulnerability, which serve to indicate the scope and extent of political risks in these countries.

The firm-specific risks addressed SNPA's company capabilities and it was concluded that the company's position in the world industry, technical and financial viability, corporate brand reputation due to their parent companies, and IFC where risk mitigating in the context of investments in Zambia, South Africa and Mozambique when relating to host governments. However, they were of more of limited utility when dealing with the risks that can be created from other actors with the potential to create risks, with the exception that SNPA is required to follow social and environmental guidelines according to World Bank standards, which might have a mitigating effect with regards to the factors socio-economic conditions, human rights and environmental vulnerability. The fact that it is easier to obtain risk insurance if a company is accredited as a project finance partner does to some extent reduce risks related to security, and SNPA's skills and expertise can mitigate the risks created by lack of human capital as they can provide the necessary training of personnel in order to increase the productivity of the projects.

The company capabilities of SNPA do therefore not enable mitigation of the high-risks in Zambia, South Africa and Mozambique alone, as the literature on political risk with regards to company capabilities has mainly been focused on political risk from host governments, less on local political risk. Hence, company capabilities in relation to the other political actors have yet to be developed in order to say more about enabling conditions for risk management in this context. It is viable to assume that the specific capabilities when dealing with these actors are of another nature than the capabilities identified for this research purpose.

The risk mitigation measures on the other hand, are more encompassing, and might therefore have the ability to mitigate the high-risks in Zambia, South Africa and Mozambique if executed properly. This relates to the fact that political risk in Zambia, South Africa and Mozambique should be dealt with at the local level, as the social license to operate is even more prevalent in developing countries. Subsequently, the corporate responsibilities of a foreign company become more important when operating under these conditions. Overall, these are the conditions that enable hydropower companies with the same firm-specific capabilities as SNPA to mitigate the political risks in Zambia, South Africa and Mozambique, and those countries with the same characteristics as the ones studied in this thesis.

7.4 Recommendations for Further Research

Although unable to qualitatively prove the efficiency of SNPA's company capabilities and risks mitigation measures, the findings in this study could be a stepping-stone for further research on the subject. An interesting study would be to analyze all of the countries in the sub-Saharan region to strengthen the external validity of these findings to assess whether the findings made in this study actually can be contingently generalized. Furthermore, to strengthen the internal validity of the findings made, a study that analyzes actual hydropower investments risk exposure and risk management in Zambia, South Africa and Mozambique, could further either strengthen or weaken the findings made in this study. The objective of this study was to conduct an analysis of an academic field marked by lack of systematic studies, and above all, studies specifically related to hydropower investments in the African continent. As investors attitudes towards investments in Africa is characterized by perceptions of risk, and thereby reluctance, further research could stimulate to make investment decision based on more objective knowledge of risks, and thereby reduce the uncertainty that characterizes investors' attitudes of political risk in Africa.

7.5 Concluding Remarks

As the energy demand in the African continent increases, so will the demand for private capital to finance the expenses of costly infrastructure projects such as hydropower. The political environment in Zambia, South Africa and Mozambique presents some challenges for foreign companies in forms of political risk. If not effectively managed, companies can lose money or not make as much money as expected before the investments took place. Political risk management can mitigate high-political risks, and is therefore a viable approach to undertake when investing in sub-Saharan Africa. Understanding the political environment and operating as good corporate citizen can take companies a long way toward achieving their corporate goals because

> *"…social and political forces, after all, can alter an industry's strategic landscape fundamentally; they can torpedo the reputations of business that have been caught unawares and are seen as being culpable; and they can create valuable market opportunities by highlighting unmet social needs and new consumer preferences"* (Bonini et al. 2006:22).

The negative exposures that companies might face if not implementing appropriate measures to mitigate political risks or exerting their capabilities to actively shape their business environment, could be lost revenues, reduced market shares, and damaged reputation. Even though a proactive stance in seeking to manage political risks contributes to influence company's risk exposure, risk management offers no guarantees, as it is virtually impossible to forecast potential probabilities and impacts of risks upon a firm. Nevertheless, hydropower companies that take political risk management seriously when investing in Africa are more likely to benefit in form of creating value. This indicates that they have to proactively understand and engage with their business environment to achieve their corporate goals.

Studies with regards to hydropower investments in the African continent is important to acquire more knowledge about as the energy demand in sub-Saharan Africa will increase in the future. In order for the continent to achieve economic development, access to energy must be made available, and this is not possible without private investments. Hence, research studies that can reduce the uncertainty and the reluctance of investors to invest in the African continent have the possibility to contribute to increase the investments flows into the region. In addition, if environmental and social concerns are taken into consideration when developing hydropower, clean hydropower can be developed, and thereby reduce Africa's dependence on fossil fuels. FDI trough clean energy thus seems as the most crucial criteria to meet the continent's energy demand, and is the more sustainable in the long run. An analysis of political risk management and actual implementation of risk management should therefore be an essential component of company's strategy abroad, not only to ensure profitability, but also to add value to the host countries. Since the political risks in these countries are high, the latter is an essential component to ensure the former, as there are many risks and many actors who can create risks in sub-Saharan Africa as witnessed by this study. A holistic risk management approach such as a corporate sustainable risk management that was introduced in the theoretical chapter seems as a viable risk management approach for investment companies to undertake when investing in *"risky"* investment destinations such as Zambia, South Africa and Mozambique, and sub-Saharan Africa in general. However, this must be further researched. Nevertheless, the purpose of this study was to shed light on a subject that is important in the real world, but also important for an academic purpose. It is therefore assumed that these conditions for research project were met in this study.

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Appendix i

Political Risk Factors from EIU:

Bad neighbors	War/armed insurrections
Authoritarianism	Urbanization pace
Staleness	Islamic Fundamentalism
Illegitimacy	Corruption
Generals in power	Ethnic tension

Political Risk Factors from BERI

Fractionalization of the political spectrum and the power of these factions	Organization and strength of forces for a radical left government
Fractionalization by language, ethnic and/or religious groups and the power of these factions	Dependence on and/or importance to a hostile major power
Restrictive (coercive) measures required to retain power	Negative influences of regional political forces
Mentality, including xenophobia, nationalism, corruption, nepotism, willingness to compromise	Societal conflict involving demonstrations, strikes and street violence
Social conditions including population density and wealth distribution	Instability as perceived by non-constitutional changes, assassinations and guerilla wars

Political Risk Factors from Jakobsen (2004):

Authoritarianism	Terrorism
Socialism and Marxism	Labor unrest
Coup, revolution and regime stability	Corruption
Rule of law	Reputational risk
Ethnic and religious tensions	

Political Risk Factors from Brink (2004):

POLITICAL RISK FACTORS	SOCIAL FACTORS OF POLITICAL RISK
1. Political system	1. Government investment in human capital
2. Separation of powers	**2.** (Il)literacy rate
3. Openness of political system and domestic openness	**3.** Job mobility impediments
4. Public accountability of government	**4.** Gini coefficient
5. Economic planning issues	**5.** Education ratio – student:teacher
6. Form of government	**6.** Per capita income
7. Racial, ethnic, religious, nationality and language issues	7. Mean period of schooling
8. Border disputes/external conflict and international relations	**8.** Unemployment rate
9. Political terrorism	9. Attitude toward foreign businesspeople and visitors
10. Militarization	10. Acceptable quality of life
11. Legitimacy issues	11. Urbanization rate
12. Government behavior	12. Population
13. Consequences of social revolution	13. Average calorie intake and nutrition
14. Political (in)stability	14. Health care
15. Civil War	15. Life expectancy
16. State of emergency	16. Infant mortality rate
17. Economic expectations and reality	17. Telephone communication and ICT
18. Leadership succession issues	18. Population access rates
19. Military in politics	19. Provision of public services
20. Erosion of domestic support for the regime	20. Global human development rating (HDI)
21. Unconstitutional change of government	21. Daily newspapers
22. Ideology as a political factor	22. Radio and television
23. Organized religion in politics	23. Social consciousness and conscience of government
24. Demographics, tradition and parochialism	24. Societal uprising
25. Corruption/nepotism in government and rent-seeking	25. Climate
26. Law tradition	
27. Status of the media	
28. Human rights record	
29. Quality of bureaucracy	
30. (Lack of) political will	
31 Involvement in international organizations	
32. Geographic position and geopolitics	
33. Contract repudiation by government	
34. Selective discrimination	
35. Political violence	

Appendix ii

Interview Guide[22]

I politisk risiko litteraturen er det fire egenskaper ved utenlandske investeringsselskaper ”key corporate variables” som påvirker selskapets politisk risiko i vertsland: Politisk risiko er definert som: *“the analysis of the probability that factors caused or influenced by the (in)action or reactions of stakeholders within a political system to events outside or within a country, will affect investment and business climates in such a ways that investors will lose money or not make as much money as they expected when the initial decision to investment was made. These factors can be of internal (from inside the host country) or external origin, and can pose macro (generic) and/or micro (specific) risks* (Brink 2004:1). In addition, foreign companies can also be agents of political risk.

Brink’s definition of political risk will be applied in this research study because (i) it views political risk in the context of a political system and by that includes other stakeholders than only political leaders, (ii) it differentiates between micro and micro risks, (iii) makes a distinction between internal and external political risk factors, and (iv) takes into account the notion that companies themselves can create political risks. De fire egenskapene knyttet til politisk risiko er:

- Nasjonaliteten til selskapet;
- Selskapets internasjonale posisjon innenfor sin sektor;
- Spesielle forhandlingsfordeler;
- Befatning med nasjonale myndigheter

1. Hvilke fordeler/ulemper er det å være et norsk selskap i Zambia, Sør Afrika og Mosambik i forhold til å påvirke politisk risiko?

2. Hvilke forskjeller er det mellom landene i forhold til dette og hvorfor?

3. Hvordan anser du SN Power AfriCAs internasjonale posisjon, og i hvilken grad/ hvorfor påvirker dette selskapets politiske risiko i Zambia, Sør Afrika og Mosambik?

4. Hvilke forskjeller er det mellom landene i forhold til dette og hvorfor?

5. Hvilke forhandlingsfordeler har SN Power AfriCA i forhold til redusering av politisk risiko?

6. Hvilke forskjeller er det mellom landene i forhold til dette og hvorfor?

7. Hvordan forholder SN Power AfriCA seg til de nasjonale myndighetene i Zambia, Sør Afrika og Mosambik?

[22] For English, please contact the author.

8. Hvilke forskjeller er det mellom landene i forhold til dette og hvorfor?